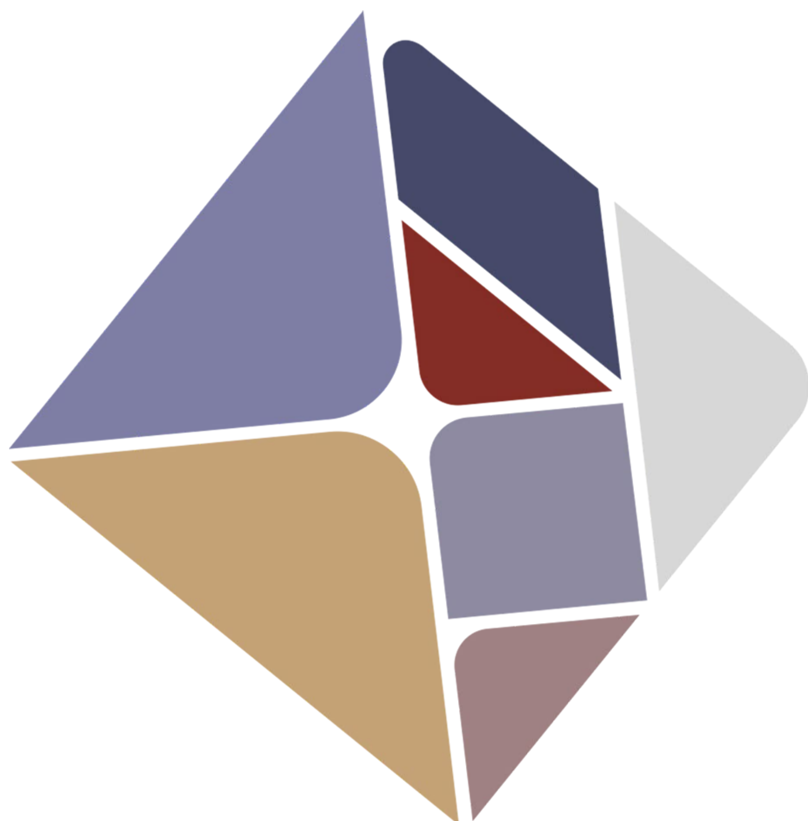
Separate and Consolidated Interim Financial Report



June 30, 2018

2018 Report and Interim Financial Statements of Iccrea Banca S.p.A.

2018 Report and Interim Consolidated Financial Statements of the Iccrea Banking Group

Iccrea Banca S.p.A.
Central Credit Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered Office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome, Italy
Share capital: €1,151,045,403.55 fully paid up
Company Register no. and Tax ID 04774801007 - R.E.A. of Rome no. 801787
Entered in the Register of Banking Groups at no. 20016
Entered in the Register of Banks at no. 5251
ABI Code no. (8000)

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REPORT ON OPERATIONS

June 30, 2018

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CORPORATE BOARDS

for 2016-2018

Elected by the Ordinary Shareholders' Meeting of July 12, 2016

Officers designated by the Board of Directors at the meetings of October 4, 2016 and October 27, 2016

Board of Directors

MAGAGNI Giulio	Chairman
MAINO Giuseppe	Senior Vice Chairman
LIBERATI Francesco	Vice Chairman
ALFIERI Lucio	
AZZI Alessandro	
CARRI Francesco	
COLOMBO Annibale	
FERRARINI Franco	
FERUGLIO Carlo Antonio	
MORETTI Mara	
PORRO Angelo	
RICCI Secondo	
STRA Pierpaolo	
TOSON Leonardo	
SAPORITO Salvatore	

Executive Committee

CARRI Francesco	Chairman
COLOMBO Annibale	
FERUGLIO Carlo Antonio	
PORRO Angelo	
RICCI Secondo	

Board of Auditors

GASPARI Luigi	Chairman
RONDINA Romualdo	Standing Auditor
SBARBATI Fernando	Standing Auditor
ANDRIOLO Riccardo	Alternate Auditor
FELLEGARA Annamaria	Alternate Auditor

Senior Management

RUBATTU Leonardo	General Manager
BOCCUZZI Giovanni	Vice General Manager

INTRODUCTION

The Financial Report at June 30, 2018 consists of the interim report on operations and the interim financial statements, comprising the financial statements and the explanatory notes to the financial statements.

In application of Legislative Decree 38 of February 28, 2005, the interim financial statements at June 30, 2018, have been prepared in accordance with the provisions of the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB)and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established under Regulation (EC) no. 1606 of 19 July 2002 as amended.

The interim financial statements, which have undergone a limited audit only, have been prepared in compliance with the provisions of IAS 34 and were drafted using the main tables provided for in Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 5th update of December 22, 2017 – issued by the Bank of Italy in the exercise of the power established with Article 43 of Legislative Decree 136/2015.

International accounting standard IFRS 9 - Financial Instruments, issued by the International Accounting Standards Board (IASB) in July 2014 and endorsed by the European Commission with Regulation (EU) no. 2067/2016, is a new accounting standard that has replaced IAS 39 as from January 1, 2018. It has impacted the method of classification and measurement of financial instruments and on the rationale and methods for calculating value adjustments.

With regard to the comparative data for the previous year, taking account of the fact that IFRS 9 provides for the possibility, at the time of first application, of not restating figures for the previous financial years, Iccrea presents comparative data by reporting the items given in the schedules of the 4th update of Circular no. 262 of December 22, 2005. Please see to the financial statements for the year ended December 31, 2017 for details on the accounting standards adopted and in force until that date.

The supervisory authorities have specified that banks that do not produce comparative figures must include, in the first financial statements prepared on the basis of the aforementioned update, a statement that indicates the method used and provides a reconciliation of the data reported in the most recent approved financial statements and the first financial statements drawn up on the basis of the new provisions. The form and content of this table may be decided by the competent corporate bodies of the bank.

The reconciliation of the account balances at January 1, 2018 as a result of the application of the new measurement and impairment rules introduced by IFRS 9 is provided in the section "Compliance with IFRS 9" in Part A of the explanatory notes to the financial statements.

1. ECONOMIC DEVELOPMENTS

The international macroeconomic environment

International economic growth slowed in the first six months of the year. Significant risk factors were associated with the intensification of trade tensions as a result of the protectionist stance of the US administration.

The outlook for the short term remains favorable: economic data for the second quarter points to robust growth in the United States, driven by the steady increase in employment and household disposable income. In Japan and the United Kingdom, the leading indicators remain compatible with an expansion in output despite falling from their highs reached at the end of last year.

In the emerging countries, the picture remains positive overall. In China and India, growth remained solid. Russia's economic outlook is continuing gradually to improve, while the outlook for Brazil remains fragile.

In the advanced economies, consumer price inflation remains moderate: in the United States in May it rose to 2.8% year-on-year, while it remained stable in the United Kingdom (2.4%), and in Japan (0.6%). Prices in the major emerging countries continue to show no sign of significant acceleration.

At global level, the risks arising from the possible intensification of economic and political uncertainty have increased. The tensions generated by the protectionist measures announced and introduced by the United States and threats of retaliation from trading partners could undermine business confidence. Geopolitical risks also rose, even after the announcement of the US exit from the nuclear agreement with Iran. Uncertainty about future economic relations between the UK and the EU remains very high, given the limited progress in the Brexit negotiations. Further risks are connected with the possibility that the removal of the monetary stimulus in the United States could translate into a sharp contraction in capital flows to emerging economies

At its June 13, 2018 meeting the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 1.75-2.00%, citing improvement in the labor market and signs of recovery in investment.

The European Central Bank took the view that the progress made towards achieving a lasting adjustment of inflation to a level below but close to 2% in the medium term has been considerable, although uncertainty has not completely dissipated. It therefore expects to terminate its net purchases of assets at the end of the year, while nevertheless retaining a large degree of monetary accommodation, which is still considered necessary to achieve the medium-term inflation target.

Macroeconomic conditions in Italy

According to the most recent figures, economic activity in Italy appears to have slowed on a year-on-year basis.

Industrial production in April decreased by 1.2% on the previous month (from +1.2%; +1.9% year-on-year compared with -1.8%). At the same time, capacity utilization in the first quarter of 2018 rose from 77.6% to 78.3%. Turnover in March also increased (+3.6% year-on-year from +2.7%, +0.8% on the previous month, compared with virtually no change in the corresponding period), as did industrial orders (+0.5% on the previous month compared with -0.8%: +2.6% year-on-year, down from +2.8%), while in May the confidence index for manufacturing firms was unchanged (107.7 points) and above the threshold indicating an expansion; the manufacturing PMI declined to 52.7 points from 53.5.

In the labor market, the unemployment rate in April was broadly unchanged at 11.2%, with male unemployment edging up from 10.0% to 10.1%, while the female component declined from 12.6% to 12.5%. The number of job seekers began to rise again, increasing by 0.6% (+17 thousand).

The number of people in employment also rose in April (+64 thousand compared with March), as did the employment rate (58.4%), thanks to the increase in female employment and in employment among those aged 35-49. The youth unemployment rate rose to 33.1% (+0.6% compared with March). The inactivity rate fell to 34.0% (-0.2 percentage points compared with February).

The most recent data on the balance of payments, for February 2018, show an improvement in the overall current account and capital account balance after the deterioration registered in January.

Imports from European Union countries fell to about €20.3 billion (compared with the €20.6 billion in the previous survey), while exports rose slightly to €21.7 billion. Imports from non-EU countries expanded by 1.1% month-on-month, while exports diminished by 2.5%.

The trade balance with non-EU countries deteriorated by 15.2%.

Overall, total imports declined to €33.7 billion. The contraction on a monthly basis was 0.6%, while imports increased by 0.8% year-on-year compared with February 2017.

The Italian banking system

The expansion in lending to the non-financial private sector continued in the first few months of 2018, buoyed by mortgage lending for purchases of dwellings and by consumer credit.

Between February and May the total funding of Italian banks increased by about €28 billion. Resident deposits and wholesale net funding with central counterparties increased, while bond funding declined further. According to the intermediaries interviewed in the Bank Lending Survey for the euro area, in the first quarter of 2018 lending conditions were more relaxed both for loans to firms and those to households, while demand continued to strengthen.

Compared with last February, the average rate on new loans to firms decreased slightly (1.4% in May). The yield differential between loans of less than €1 million and larger loans, which provides a measure of the gap between rates on loans to small businesses and those to larger enterprises, rose slightly to just over a percentage point. The rates on new loans to households for house purchases fell by a tenth of a point (1.8 per cent), reflecting the reduction in rates on fixed-rate loans.

In the first three months of 2018, the flow of new non-performing loans as a proportion of total loans, net of seasonal factors, fell to an annualized 1.7%, from 2.0% in the previous quarter.

Recent initiatives by European authorities regarding impaired loans

On March 14, 2018 the European Commission presented a package of measures - to be discussed by the European Parliament and the European Council – intended to accelerate the reduction of non-performing loans in the banking sector. The proposals are consistent with the action plan of the European Council aimed at overcoming the problems connected with the substantial volume of impaired loans and with the initiatives implemented in recent years by the Member States, supervisory authorities and banks that have progressively reduced such positions in Europe. The Commission's accompanying report emphasized that, thanks to the measures implemented by national banking systems, the level of NPLs in the EU has gradually decreased in recent years, reaching 4.4% in the third quarter of 2017 (from 6.7% in 2014), although with not inconsiderable divergences among the various countries. Nevertheless, the total volume of impaired loans (€910 billion) still remains well above pre-crisis levels. In Italy, the decline was more accentuated in the last quarter of 2017, bringing the NPL ratio to 12.1%, from 16.1% in the third quarter of 2016. That level is still among the highest in Europe, after those of Greece, Cyprus and Portugal.

The measures proposed by the Commission – comprising a directive, a regulation and a technical blueprint – together provide for a series of complementary actions aimed at: (i) ensuring that banks set aside funds to cover the risks associated with loans issued after March 14, 2018 that may become non-performing; (ii) encouraging the development of secondary markets, formed of entities specialized in the management of non-performing loans, to enhance the efficiency of banks' disposals of NPLs; (iii) facilitating debt recovery; and (iv) assisting Member States to make the transfer of NPLs more efficient through the establishment, in exceptional cases, of a bad bank.

More specifically, the Commission presented a regulation amending the CRR (Regulation (EU) No. 575/2013) that provides for minimum levels of coverage for newly originated loans that become non-performing (the so-called prudential backstop), in order to address the risk of not having enough funds to cover losses on future NPLs and preventing their accumulation. Failure to meet with the applicable minimum level (100% after eight and two years, respectively, for secured and unsecured loans) will result in deductions from the bank's own funds.

In addition, the Commission has also presented a proposal for a Directive - whose measures are to be implemented by the Member States by the end of 2020 - aimed primarily at improving the efficiency of debt recovery procedures,

providing for the possibility of accelerated out-of-court enforcement of loans secured by collateral. The proposal - which in principle is directed at the same objectives of the so-called Patto Marciano regulated in Italy by Article 48-bis of the Consolidated Banking Act, introduced with Decree Law 59/2016, ratified with Law 119/2016 – would allow banks and borrowers (excluding consumer credit) to agree in advance on an accelerated out-of-court mechanism to recover the value from loans secured by collateral (the accelerated extrajudicial collateral enforcement procedure). In order to further develop secondary markets for NPLs, the Directive also envisages harmonizing requirements and creating a single market for credit servicing and the transfer of bank loans to third parties across the EU, setting common standards for authorization and supervision for authorized entities so that servicers can be active throughout the EU without having to meet additional national requirements (so-called passporting).

Finally, the package of measures includes a technical blueprint containing non-binding guidelines for the establishment of bad banks (asset management companies) authorized to purchase loans, stating however that any State aid for these entities would be only be allowed under specific conditions and as “exceptional solutions”. In addition, governments could provide “market-compliant” guarantees for the securitization of NPLs.

On March 15, 2018 the Single Supervisory Mechanism published a measure (an "Addendum" to the “Guidance on non-performing loans” issued by the ECB last year) with which it introduced a temporal approach to the impairment of impaired loans (so-called calendar provisioning). Unlike the provisions of the Commission proposals above, the Addendum effectively introduces supervisory expectations for the coverage rates of impaired exposures starting from April 1, 2018, in accordance with a “second pillar” approach, differentiating between unsecured and secured loans, to be completely written down in two and seven years, respectively, under penalty of more restrictive capital measures.

The mutual banks

Lending to customers by the mutual banks amounted to €132.3 billion as at March 2018. The market share of loans was 7.3%.

Mutual bank lending was diversified by geographical area, with all areas posting growth, with the South registering the largest increase (+4.7%).

Loans to firms amounted to €80.3 billion (-0.7% compared with -5.6% for the banking system as a whole), with a market share of 9.9%.

Broken down by sector of borrower, the mutual banks posted growth of +3.7% in loans to consumer households. By contrast, lending to producer households contracted by -0.5%.

The market shares of the mutual banks by borrower segment were equal to 18.5% of lending to producer households, 8.6% of lending to consumer households and 8.8% of lending to non-financial corporations. The market share of lending to the non-profit sector was very high at 14%.

With regard to the geographical distribution of lending, growth exceeded 4% in the North-west, the Center and the South.

Lending to firms expanded year-on-year in many significant sectors, including the agricultural sector (+3.7%), accommodation and food services (+3.5%) and rental, travel agency and business support services (+6.5%). The year-on-year contraction in construction and real estate activities continued (-6.8%).

At March 2018, total funding by the mutual banks amounted to €188.7 billion. The aggregate contracted significantly on a year-on-year basis (-3.1%, compared with -1.7% for the entire banking industry).

At the same date, funding from mutual bank customers amounted to €158.4 billion (up 1.6%, compared with a contraction of 2.2% for the banking industry as a whole). Mutual bank funding from banks as at March amounted to €30.4 billion (-22.1%, compared with -0.6% for the entire banking system year-on-year).

Of total funding by the mutual banks, 83.9% was raised from customers and bonds and 16.1% from interbank funding. The composition differs significantly from the banking industry average, where funding from banks is considerably higher at 31.1% at the end of the first quarter of 2018. Within the customer funding aggregate for the mutual banks, the share of current accounts and certificates of deposit is significantly larger than the average for the entire banking system.

Total "capital and reserves" (as indicated in monthly statistical reporting) amounted to €19.4 billion (-1.4%) at March 2018.

The average Tier1 ratio and Total Capital Ratio of the mutual banks were 16% and 16.5%, respectively, in March.

Preliminary information on performance[1] points to a stabilization of the improvement registered the previous year. Net interest income declined slightly year-on-year (-0.7%), compared with a more substantial contraction for the banking system as a whole (-4.7%). Net fee and commission income of the mutual banks showed weak growth (+0.5%), as against a small decline posted by the banking system as a whole (-0.6%). On the cost side, income statement developments as at March 2018 confirm the gradual rationalization of costs already seen the previous year. The administrative expenses of the mutual banks declined by an average of 3.8% year-on-year, compared with an increase of 0.8% by the entire banking industry. The decrease in mutual bank administrative expenses was greatest in the North-west (-8.3%).

1 Source: BASTRA B.I. reports
** Income statement data, reported quarterly by the banks, do not include all the cost and revenue items included in the half-year and annual financial statements.*

2. THE ICCREA GROUP'S STRATEGIC LINES OF BUSINESS

The Parent Company, Iccrea Banca, both directly and indirectly through the Group companies, supports the banking operations of the mutual banks, acting on a partnership basis to provide products, services and consulting to enable them to maximize their market performance. The main areas of our operations comprise:

- providing access to domestic and international capital markets;
- trading and order collection services for bond and equity transactions and the associated custodian and settlement activities;
- structuring securitizations of performing and non-performing receivables;
- operational and accounting services with which the mutual banks perform the exchange and settlement of collections and payments on domestic and international clearing systems;
- intermediation of cash flows and management of the collateral of the mutual banks for participation in monetary policy operations and gaining access to interbank capital markets;
- asset management and pension products;
- insurance services;
- credit solutions and services for SMEs, leasing and factoring, corporate finance solutions and support for import/export activities and international expansion;
- consumer credit;
- issuing credit and debit cards and associated processing activities;
- acquiring and associated processing services;
- IT services;
- managing impaired loans.

The companies of the Iccrea Banking Group are controlled by Iccrea Banca SpA, which is in turn owned by the mutual banks and other entities of the mutual banking system.

BUSINESS AREAS

The Group is organized into three business areas designed to provide better focus on and specialization in its market.

Institutional business area

The wholesale trading and market-making for Italian government securities saw volumes contract by 7% in the first half of 2018 compared with the same period of 2017, to about €45.2 billion, although Iccrea remained one of the leading operators in the sector.

As part of its market-making activities, Iccrea Banca maintained quotes for about 550 eurobonds and 100 Italian government securities. Total volumes at June 30, 2018 amounted to €3 billion, of which €1.7 billion in Italian government securities and €1.3 billion in eurobonds.

On the Hi-MTF platform (order driven segment) liquidity was ensured for some 1,200 bonds issued by more than 60 mutual banks.

With regard to trading in equities, in the first half of 2018 about 4,900 transactions with a value of about €600 million were carried out, of which 2,549 in shares/ETFs, 2,219 in futures on indices and 123 in options on indices/shares.

In the bond segment, during the first half of the year about 8,000 transactions were carried out, with a value of about €45 billion, of which 460 transactions in government securities and 7,500 in futures on government securities.

Within its OTC derivatives operations, Iccrea Banca transacted a notional of about €2.8 billion, a decrease of about 39% on the first half of 2017.

In view of market conditions characterized by very low interest rates and the upcoming termination of the ECB's Public Sector Purchase Program, Iccrea Banca provided the mutual banks with instruments to hedge risks on their assets in a notional amount of about €694 million, an increase of about 15% compared with the previous year. Purchase of BTPs linked to European inflation and the concomitant closure of interest rate swaps by the mutual banks amounted to €395 million.

In the order collection segment, the first half of 2018 saw a reduction of 19.2% in total trading volumes, from €13.6 billion in the first half of 2017 to €11 billion in the first half of this year.

The decline was greater than the average decrease posted by the associated markets (Borsa Italiana, EuroTLX, Hi-MTF) as a result of a significant contraction in the proprietary operations of the mutual banks.

During the period, trading volumes in respect of the proprietary investment activities of the mutual banks declined by 23.8% (from €9.3 billion to €7.1 billion), while volumes of trading for third parties by the mutual banks fell by 9.2% (from €4.3 billion to €3.9 billion).

According to the half-year report of Assosim, Iccrea Banca ranked fourth in trading for third parties on the Domestic MOT market operated by Borsa Italiana, with a market share of 10.1%.

Activity on the primary market also saw placement volumes decline by 23.6% in the period, going from €1.6 billion in the first half 2017 to €1.2 billion in the first half of this year.

In this area, Iccrea Banca also participated in the placement of the new issue of the BTP Italia as co-dealer, performing this role for the fifth time in thirteen issues. The total amount placed with the mutual banks and their customers was €954 million, equal to 12.4% of the total issued.

In the area of structured finance activities, during the first half of the year structuring activities were completed for the sale of non-performing loans as part of the completion of a securitization backed by the state guarantee mechanism. In June, 21 mutual banks and two companies belonging to the Iccrea Banking Group assigned a portfolio of bad loans totaling around €1 billion in gross value to a securitization vehicle established pursuant to Law 130/99. In July, the vehicle issued three classes of ABSs: one senior class, rated Baa3/BBB- by, respectively, the Moody's and Scope agencies, equal to €282 million and eligible for the purposes of participation in the GACS guarantee mechanism, one mezzanine tranche, with ratings of Caa2/B+, respectively from Moody's and Scope, equal to €31.4 million; and one junior tranche, unrated, equal to about €10.5 million for a total value of the notes issued equal to 31% of the nominal value of the loans assigned.

In addition, two non-recourse assignments of non-performing assets originated by a number of mutual banks and BCC Credito Consumo were carried out.

A securitization involving performing loans was also initiated on behalf of the latter and should be completed by the end of this year.

As part of the activities connected with finance operations, steps were also taken to comply with the requirements of the MIFID 2 Directive.

With regard to the forthcoming establishment of the Mutual Banking Group, activities continued for the organizational revision and implementation of the processes and operational platforms necessary to optimize operations and expand the offering system for the mutual banks. In this context, the mutual banks were also supported in the implementation of IFRS 9.

Activities involving the **payments systems** of Iccrea Banca were focused on achieving the following objectives in the interests of the mutual banks we serve:

- implementing the exchange and settlement of payments/collections with banks in Europe and beyond;
- minimizing the costs that the individual mutual banks would incur to conduct these transactions (connections, technological infrastructure, procedures, etc.), and at the level of regulatory compliance (participation in working groups sponsored by ABI, Bank of Italy CIPA, Target, etc.);
- reducing costs for the banks served and enabling them to provide effective commercial services to their customers;
- leveraging the nature and role of the mutual banking network while expanding the offering with new products.

The world of payment systems is seeing the emergence of new non-bank operators who are very aggressive in their approach to the market and free of legislative or supervisory restrictions.

This environment makes it essential to develop new value-added services for customers to preserve profitability and enhance the loyalty of mutual bank customers. Accordingly, Iccrea Banca is continuing development of products like MyBank and CBill for payments (completion of product range in 2017 on the invoicer/creditor side), electronic invoicing, digital document retention and services connected with the digitization of government and the STS.

As part of its participation in official government and interbank initiatives, Iccrea Banca participates in the main working groups sponsored by ABI, Consorzio CBI, EBA and the Electronic Invoicing and Dematerialization Observatory.

In addition, under the aegis of the European Payments Council (an associative body the European banking industry in charge of managing the SEPA payments scheme and liaising with the European authorities, Iccrea Banca:

- is participating on the top decision-making body (the Board) as part of the Italian representation coordinated by ABI with Unicredit, ISP, and ICBPI, thus giving it the opportunity to participate in strategic decisions at the time of their formation;
- is participating in the working group on the evolution of SEPA mechanisms;
- defined the instant-payment mechanisms as Italian representative;
- has taken advantage of the option granted by the EPC to configure our banks as a group, which has made it possible to achieve significant savings on fees for participation in SEPA.

With regard to the key figures for the first half of 2018, Iccrea Banca handled a total of 119 million transactions in various products, a decrease of 14.3% on the same period of 2017 (139 million).

Compared with the previous year, there was a broad reduction in the volumes handled for all products, with the exception of electronic invoicing and cash management. Commercial collections were especially impacted (7 million fewer items than in the first half of 2017, a decline of 13.3%), as were credit transfers (5.6 million fewer, or -11.4%), the trade receivables portfolio (3.5 million fewer, or -27%) and checks (2 million fewer, or -13%).

The decline is attributable to the migration of the mutual banks belonging to the CCB Group and to the failure of the new mutual banks joining the MBG to transfer payment services to Iccrea.

By contrast, transactions carried out for the mutual banks that joined the Group increased slightly, with better results than in 2017 for SEPA SCT/SDD products and electronic invoicing/digital document retention services.

The value created for the mutual banks can be exemplified as follows: multiplying a value of €0.50 (cost per transaction) by the number of commercial collection and bank transfer services provided (180 million items per year), the fees generated by the mutual banks amount to 90 million (the average cost estimated in 2013 by the Bank of Italy for the banking system as a whole for a credit transfer to the same bank was about €0.75).

As part of the **Institutional Services** segment, Iccrea Banca acts as a partner capable of delivering the entire value chain of securities administrative and settlement services. In addition, it provides a high degree of flexibility in service delivery so that it can also handle non-standard approaches, customizing products and services based on customer needs.

During the first half of 2018, all the services necessary for fulfillment of the obligations introduced by the new MIFID 2 regulation, which came into force on January 3, 2018, have been implemented and made available to the mutual banks. In particular, a single centralized database of trading orders executed by Iccrea Banca, the Iccrea Banking Group companies and participating mutual banks has been developed, from which the information necessary to ensure compliance with the transparency obligations envisaged under MIFID 2 is extracted. The service for preparing KIDs and the Product Testing service for the mutual banks were launched for the management of issues of own bonds. Registry services have been expanded, with the identification of the target markets associated with each financial instrument. In addition, in order to improve the pre-contractual transparency of the mutual banks with regard to their customers, each negotiable financial instrument is accompanied by a product sheet that sets out the financial characteristics and risks of the instrument.

Other developments regarding the Register of Financial Instruments included the implementation of measures to manage the new accounting standard IFRS 9, which took effect as from January 2018.

The main services provided to the mutual banks in the area of ancillary services and management of the finance register were:

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 75,000 instruments, of which about 12,000 with a balance;
- administrative support for activities connected with the management of the "pool collateral" mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at complying with Consob liquidity regulations and, more recently, placement and trading procedures for those issues. Participating mutual banks numbered 60, with a total of about 1,000 issues listed;
- the issuers service, which offers administrative support for the issuance activity of 71 mutual banks;
- the management of activities connected with the distribution of investment funds of BCC Risparmio & Previdenza. The results achieved in the first half of 2018 confirmed the positive trend seen in recent years, with a significant increase in volumes in the retail segment, while remaining stable in the institutional segment and achieving assets under administration of about €7.3 billion for retail customers.
- the services concerning compliance with transparency rules and the monitoring of possible market abuse, for which, in the first half of 2018, 164 mutual banks had subscribed to the Transaction Reporting service, 149 mutual banks had signed up for certification of execution venues, 155 for Post-Trade Transparency and 111 mutual banks for the MAD service;
- support for the mutual banks in the production and management of KIDs, with 114 participating mutual banks as of June 2018;
- support for mutual banks and their customers in complying with EMIR and FACTA obligations, providing ongoing, specialist support in meeting the obligations introduced during the year; 73 mutual banks are participating in the EMIR service;
- the event management service – for payment of coupons and redemptions, dividends and corporate operations – was provided for about 15,550 events with a total volume of about €9 billion, mainly from coupon payments on government securities.
-

As of the end of June 2018, securities worth about €80 billion were held in custody and administration.

The full operational continuity of the **IT systems** of **Iccrea Banca** and **BCC Sistemi Informatici** was assured in the first half of 2018, supporting the implementation of the Banking Group's strategy.

Discussions with the ECB on IT issues in the early months of the year, prior to the presentation of the application to establish the Mutual Banking Group, led to the definition of binding project guidelines concerning the systems of Iccrea Banca and those of the mutual banks that will be joining the MBG.

The development of "strategic" projects behind the creation of the banking group was begun. The areas of intervention concerned Risk Management, Administration and Planning and Management Control, Finance, Compliance and Anti-Money Laundering, HR and Corporate Governance, for a total of 24 projects.

In order to complete the transition to a single information system over the next three years, in line with the commitments made to the ECB, a specific project and tight time schedule were developed to enable achievement of that objective with the support of leading IT companies.

Other major projects in the first half the year included the "mandatory" initiatives of the Iccrea Banking Group, including those relating to the completion of MIFID 2, IFRS 9 and the new regulations concerning the GDPR. Other developments included the completion of the CIT project, which developed and implemented the platform for managing check dematerialization.

Data centers remained the focus of a specific project that will continue for the entire year to strengthen the disaster recovery infrastructure and conduct a test involving the largest possible number of operators. The goal is also to create, as quickly as possible, the conditions for switching operations from the primary site to the disaster recovery site for at least a week.

In the first half of 2018 **BCC Sistemi Informatici** provided support to 105 banks through numerous projects, the most important of which included:

- Anacredit: a new database containing detailed information on individual bank loans in the euro area, which will draw on existing national credit registers to produce harmonized data sets to support various central bank functions, including monetary policy decision-making and macro-prudential supervision. The first phase, which will start on September 1, 2018, provides for the reporting of data on loans to firms larger than €25,000;
- GE.RE credit register: new procedures for exchanging dataflows via Internet and discontinuing use of the national interbank network (RNI);
- SIOPE+: the exchange of dataflows between the government entity and the treasury bank has been modified, since the entity portal (Teso Web Sign) will no longer be used, to be replaced exclusively by the SIOPE+ platform. The new regulations provides for the gradual roll-out of the system on the basis of the type of entity and the resident population: from January 1, 2018 for all regions and autonomous provinces, metropolitan cities and provinces; from April 1, 2018 for municipalities with over 60,000 inhabitants; from July 1, 2018 for municipalities with between 10,001 and 60,000 inhabitants; from October 1, 2018 for municipalities with up to 10,000 inhabitants, health authorities and hospitals;
- Data Masking: to remove sensitive information and anonymize data from the production environment in order to populate the development and testing environments;
- GDPR: new European Privacy Regulation, which standardizes data handling, which was previously delegated to individual Member States. The Regulation establishes rules concerning the protection of individuals with regard to the processing of personal data, as well as rules governing the free movement of such data in both the private sector and in the public sector.

In addition, significant work was carried out to comply with legislative changes relating to IFRS 9, PSD 2, MiFID II and the Mutual Banking Group reform.

As part of the institutional services, in the first half of 2018 **BCC Gestione Crediti** – with the exception of Iccrea BancaImpresa, which manages bad loans using its own proprietary software – continued to manage operations in accordance with the evolutionary model implemented in 2017 (transition to use of IFAMS software for all managed portfolios). In the first half of this year, as discussed in greater detail in the following section on results, performance was in line with the commercial development plan targets.

Regarding support for Group companies and facility management activities, **BCC Solutions**, in addition to developing its ordinary activities in 2017, was closely engaged in completing the expansion and renovation of the Lucrezia Romana headquarters. The expansion, which involved all 3 of the campus buildings, added around 4,400 square meters of office space, making it possible to add 279 work stations (+17.4%). Moreover, a new underground garage was built, with space set aside for equipment rooms, and the complete restyling of the external walls was completed, considerably improving the environmental impact owing to climate control systems in the rooms and the installation of a photovoltaic system composed of about 297 modules.

Considering as well that the area adjacent to the Lucrezia Romana headquarters is deemed of special archaeological and social interest, the entire site underwent recovery and redevelopment for historical preservation and urban planning purposes culminating in the construction of an archaeological park with a connected playground area. As part of its family-friendly policies, the Iccrea Banking Group has also implemented corporate welfare measures to help employees manage their work-life balance. In addition, as the in-house daycare facility envisaged in the renovation plans could not be located in the main building, it was opened in a separate location nearby.

Corporate business area

This business area is composed of companies that offer solutions to small and medium-sized enterprises and to local government entities that are customers of the mutual banks. It provides a wide range of products and services for meeting all customer needs, even the most advanced ordinary lending and special corporate finance products, medium/long-term lending and international services, leasing, factoring, rental and other advanced consulting services. The Group companies that operate in this area are: Iccrea BancaImpresa and its subsidiaries BCC Factoring and BCC Lease.

At June 30, 2018, the loan portfolio of **Iccrea BancaImpresa** had contracted by 3.4% compared with the end of December 2017. Net impaired assets declined by 6.4%.

New credit granted by the bank as at the end of June 2018, including outright loans, guarantees and international credit, amounted to about €0.6 billion, largely in line with budget (-0.59%). The decrease compared with the previous year (-14.53%) mainly reflects a reduction in the contribution of the mutual banks that are not participating in the formation of the new Mutual Banking Group.

More specifically, outright lending reflected the following developments:

- the lease segment, net of corporate finance transactions, posted new business amounting to €312.4 million (-19%);
- ordinary lending, net of corporate finance and international transactions, amounted to €154.6 million, down 12.8%, reflecting the contraction in real estate mortgage lending;
- corporate finance posted new lending of €93.9 million, an increase of 12%;
- the international segment registered €87.2 million, up 4%.

As a proportion of total lending, lease operations, net of corporate finance transactions, accounted for 48.2% of the bank's new lending. Equipment leasing contracted by 9.1%, with all other segments also declining, running counter to general developments in the lease market as survey by Assilea (+9%). In addition to the contraction in the network of mutual banks in reflection of their participation in the other mutual banking group being formed, other factors affecting performance for the period included the transfer of new business to the subsidiary BCC Lease, especially as regards the auto and industrial vehicle segments.

Assilea figures for the first half 2018 show Iccrea BancaImpresa with an average market share of 3.09%, putting the company in 8th place among leasing companies.

Funding, which is centralized with the Parent Company, Iccrea Banca, amounted to €6.6 billion at the end of 2017. Part of the new resources (€1.1 billion) came from the allocation of funds from the T-LTRO II operation, made possible by the increase in the final part of the 2017 in the volume of loans pledged as collateral to the Bank of Italy. At June 30, 2018 those assets had a nominal value of €2.4 billion.

During the period, the Group's centralized Finance unit issued 14 senior plain-vanilla bonds amounting to about €763 million in order to obtain medium/long-term funding correlated with the maturity of its loans to customers.

Securitization activities in the first half of 2018 were intense in correspondence with the revolving period for the securitization of performing lease receivables carried out in August 2016, for which the bank is the servicer ("Agri#9"). In line with the terms of that transaction, two subsequent assignments of performing lease receivables were carried out during the period, in the total amount of €159 million.

In the area of Complementary Products and Services, with regard to service activities associated with giving the mutual banks access to the guarantee fund for SMEs, operations increased by about 32% in the first half of 2018 compared with the same period of 2017. The number of applications totaled more than 4,700 in the first half of 2018 (of which more than 1,900 were approved), with a total amount of more than €298 million in financing

requested. Service activities also increased in the guarantee enforcement area, enabling the mutual banks to recover more than €34 million from the fund on defaulted positions to date, of which more than €4.7 million in the first half of 2018 alone. For service activities associated with CDP funds, in the first half of 2018 the mutual banks drew resources for loans to customers of €11 million, of which €8 million under the Enterprise fund and €3 million under the Home fund.

For **BCC Factoring**, the first half of the year was characterized by the growth in volumes handled and by the company reorganization, which made it possible to consolidate its product positioning in the Iccrea Banking Group as a specialized activity aimed at business customers, supporting all the mutual banks participating in the Mutual Banking Group now being formed. Overall gross credit at June 30, 2018 amounted to €357 million, against a total of €438 million in outstanding invoices.

During the first half of 2018 **BCC Lease** launched the development plan discussed with the Parent Company, focusing on organic growth in volumes in the markets the company already serves and on the gradual expansion of operations in the heavy vehicle segment.

With regard to the latter in particular, in the first half of the year operations in the heavy vehicle segment through the agent channel were begun. At the same time, the preparatory work for the start of operations through the mutual bank channel was completed, activating operations at a number of test mutual banks. The progressive roll-out to the remainder of the mutual banks will begin in the second half of the year.

On the commercial level, in the first half of 2018 the company was once again a key partner in the small-ticket leasing segment for the mutual banks and in the Italian market and was one of the major domestic players in the operating and small-scale capital equipment finance leasing, segments in which it has long adopted a "vendor" approach.

At June 30, 2018 BCC Lease had received some 14,800 applications with a value of €197 million, an increase of 8% in number and 22.2% in value compared with the same period of the previous year. In the same period, new lending amounted to €120 million from 10,600 contracts, an increase of 12.4% in the number of transactions and 20.7% in value.

Retail business area

The area groups those companies that offer products and services to the retail customers of the mutual banks. Its wide range of products and services includes asset management, personal loans, electronic money and insurance products. The Group companies in this business area are: in addition to the Parent Company (Iccrea Banca), BCC Risparmio & Previdenza, BCC Retail, BCC Credito Consumo, Ventis and Banca Sviluppo.

In the **electronic money** sector, in the first half of 2018 **Iccrea Banca** continued to register growth in the card segment (issuing), with 3.8 million operational cards and about €9.6 billion in transaction volume and in the POS and ATM segments (acquiring), with more than 170,000 POSs and 4,300 ATMs active and about €10.5 billion in transaction volume.

In the issuing segment, all three components (debit, prepaid and credit) posted gains, which as at the end of June 2018 can be summarized as follows:

- operational debit cards with chip technology exceeded 2.4 million cards, an increase of 4.3% at the end of June 2017;
- the stock of operating credit cards expanded by 4.6%, rising to 889,000 at the end of June 2018;
- operational prepaid cards rose to 475,000 at the end of June 2018, an increase of 3.9%.

Analogously, the acquiring segment also posted an increase in volumes: total transaction volume in the first half of 2018 amounted to €10.5 billion, up 8.4%.

The period saw the further development of the 'push acquiring' project aimed at supporting the mutual banks in placing the Acquiring product through a dedicated network of agents. At June 30, 2018 the new channel enabled the participating mutual banks to increase their acquiring volume by more than €190 million (+80.9%).

The period also saw the completion of a range of projects to increase volumes handled, develop new business models and expand the Ventis marketplace:

- completion of the Direct Issuing product range, with the inclusion of the new Impresa MasterCard card;
- launch of Ventis Points to support the mutual banks, through a network of agents, in placing CartaBCC products, with a focus on the Ventis line. The main objectives of the initiative are to increase the penetration of credit cards among holders of current accounts, to promote the Ventis Cards, which represent the product with the greatest value-added in the Iccrea Banking Group issuing segment, and to increase subscribers and volumes transacted on the Ventis marketplace;
- launch of Samsung Pay: activation of CartaBCC Direct Issuing MasterCard cards for innovative payments via enabled Samsung devices (smartphones and smartwatches) and contactless and non-contactless POSs;
- launch of Ventis City, a commercial platform serving the mutual banks with the aim of enhancing the products and services offered to CartaBCC POS affiliated shops. Ventis City connects the world of physical POSs with the online world, offering merchants a suite of products and services to help them enhance their online reputation and their customer volume through a mix of couponing, cashback and/or immediate discounts through existing POSs. At the same time, it offers Ventis users the best local offers available in a particular city on fashion products, restaurants, hotels and much more;
- acquisition of 100% of 13metriquadri Srl, a company specialized in international online sales (especially in the United States) of couture products, especially "made in Italy" fashions. The acquisition strengthens Ventis's strategic positioning in the premium segment by including the full price product offer of the fashion industry (which is expanding rapidly). It is also a key step in the internationalization of Ventis in markets such as the United States, China and the United Arab Emirates, where demand for "made in Italy" products is very strong, especially in fashion, and which is often driven by the fame of big name brands. 13metriquadri sells products from established brands (e.g. StoneIsland, Cucinelli, etc.);
- opening of Ventis to the Chinese market through WeChat. Ventis and the mutual banks will thus be able to offer client companies a major channel to develop their business in China as well;
- completion of Direct Acquiring POS for the JCB and UPI circuits and roll-out to existing POS sites;
- launch of Ventis Mobility, an app offering mobility services, through which users can pay for parking and purchase train, bus and metro tickets.

In the asset management sector, total assets under management/placement by **BCC Risparmio & Previdenza** amounted to €15.2 billion, with net funding in the first half of 2018 of about €190 million. Assets under management include €1.6 billion in investment funds, €2 billion in fixed-income funds, €2.9 billion in retail and institutional portfolio management products, about €617 million in supplementary pension funds and €7.6 billion in third-party SICAVs.

In the first half of 2018 **BCC Credito Consumo** continued to distribute consumer credit products (exclusively personal loans) through the branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications.

During the period, the company essentially completed a reorganization following completion of the Matrix project, with the insourcing of debt recovery operations previously handled by the former shareholder and outsourcer AGOS Ducato.

At June 30, 2018, 247 mutual banks (net of mergers) had agreements with the company. The decline in the number of agreements compared with December 31, 2017 (265) was attributable to the reform of the mutual banking sector, which has involved the creation of two new groups.

Despite the contraction in the pool of mutual banks, the company's commercial efforts and marketing campaigns enabled it to the surpass budget forecasts (+10.5%), with new lending of €198 million. This was less than in the same period of the previous year (€246.8 million at June 30, 2017), reflecting the impact of the migration to the new information system.

During the second quarter, the company began studies for the finalization by the end of the year of an initial securitization transaction, for which the Parent Company, Iccrea Banca, will act as arranger. This operation will improve the risk profile of the company while also optimizing the cost of funding and creating the conditions to improve the company's price competitiveness with customers of the mutual banks.

In June 2018, a non-recourse assignment of non-performing loans with a total outstanding value of about €6.8 million was completed. The transaction generated a profit of €0.37 million.

As well as conducting its normal operations in the first half 2018, **Banca Sviluppo** also continued the sale of branches to local mutual banks.

During the period, the preparatory activities for the presentation of the purchase offer for ten branches in the Veneto area of interest to BCC di Roma were completed. The transaction concluded with the presentation and acceptance of the binding offer by the board of directors.

The company continued analysis for the sale and integration operations with local entities for the areas of Calabria, Romagna and Campania. In the Veneto area, the assets to be sold to Cerea Banca 1897 were redefined, with the involvement of three branches in the province of Verona, while the remaining six Veneto branches in the province of Padua were to be transferred to Banca Patavina.

Other sales transactions agreed during the previous year were also completed, involving 5 branches, 14 employees, €47.2 million in total deposits and €39.5 million in gross loans.

3. CREATING VALUE FOR THE MUTUAL BANKS AND OVERVIEW OF OPERATIONS

In pursuing its mission of providing ongoing support to the mutual banks in improving their market positions and enhancing their competitiveness, the Iccrea Banking Group contributes to creating value in local communities by offering products and services targeted at various segments of operations and by distributing a significant share of the fees and commissions commensurate with new volumes of business generated. At June 30, 2018, the total amount of fees and commissions passed through to the mutual banks amounted to about €200 million, to which the growth in electronic money accounted for the most significant portion

€/million	Dec 2016	Jun 2017	Dec 2017	Jun 2018
Asset management	74.5	46.6	95.8	51.2
Insurance investment products	26.3	13.8	25.6	15.4
Corporate loans	5.5	2.9	5.7	2.8
Electronic money	220.6	108.2	236.7	122.6
Consumer loans	22	9.6	19.8	7.9
Total fees and commissions passed through	**348.9**	**181.1**	**383.6**	**199.9**
System contributions	4.1	1.8	0.0	1.9
Dividends of Iccrea Banca (*)	14.2	11.2	11.2	-
Total	**367.2**	**194.1**	**394.8**	

(*) Dividends by year of disbursement.

All the Group companies are constantly focused on nurturing and expanding their relationship with the mutual banks, reinforcing the strategy of establishing partnerships and close ties. The various institutional relationship activities and engagement with the mutual banks help create opportunities at the international level and develop instruments to dialogue and address key business issues. Alongside its domestic activities, the Group has increasingly focused on the international market within the context of relationships developed with domestic, foreign and supranational institutions and/or entities, in order to expand the international activities of the Group and the mutual bank system (for example, in the area of funding), as well as supporting SME customers in the process of international expansion.

Support for system liquidity and profitability

As part of its institutional functions, the Iccrea Group also provided support to the mutual banks through:

- €17.3 billion in collateralized loans;
- €256 million in bonds underwritten (average annual exposure);
- €7.2 billion average balance in active management of liquidity using short-term treasury instruments;
- €13.9 billion in financing through participation in the T-LTRO II program;
- €4.5 billion in initial value of securitizations, with a residual principal of €2.2 billion.

In addition support for the operations of the mutual banks also included:

- €10 billion in lending to the corporate and retail customers of the mutual banks;
- €15.1 billion in assets managed/placements with mutual bank customers;
- €12.2 billion in order collection;
- 137 million transactions intermediated in the collections and payment segment;
- €9.5 billion in volumes handled in the issuing segment;
- €10.5 billion in volumes handled in the acquiring segment.

4. DEVELOPMENTS IN GROUP OPERATIONS

THE BALANCE SHEET

To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in the 5th update of Circular no. 262/05 of the Bank of Italy.

The comparative balance-sheet figures for the previous year given in the following tables were determined by reclassifying the items envisaged in the 4th update of Circular no. 262/05.

Consolidated assets

€/thousands	30/6/2018	31/12/2017
Cash and cash equivalents	82,779	110,641
Financial assets measured at fair value through profit or loss	770,908	485,037
Financial assets measured at fair value through other comprehensive income	333,850	2,804,525
Financial assets measured at amortized cost:	41,629,651	32,874,332
a) due from banks	18,053,013	17,875,758
b) loans to customers	23,576,638	14,998,574
Hedging derivatives and value adjustments of macro-hedged financial assets	6,284	6,721
Equity investments	112,507	111,676
Property and equipment	703,854	734,014
Intangible assets	52,064	49,409
Tax assets and other assets	680,016	730,845
Non-current assets and disposal groups held for sale	313,276	220,286
Total assets	**44,685,189**	**38,127,486**

Total consolidated assets at June 30, 2018 amounted to €44.7 billion, up €6.5 billion (+17.2%) compared with December 31, 2017. The increase compared with 2017 mainly reflects:

- the sale of all government securities held in the investment book (HTCS) as a result of implementation of a stop-loss strategy following the increase in the spread at the end of May;
- the purchase of government securities recognized at amortized cost to implement the HTC portfolio up to €10 billion, about half of which maturing within this year;
- the reduction in loans to customers as a result of a decline in repurchase transactions with the Clearing and Guarantee Fund in the amount of about €1.5 billion.

Amounts due from banks (€18 billion) are broadly unchanged compared with the end of the previous year, the net effect of the decline in the liability for reserve requirement funds of the mutual banks (-0.5 billion) and an increase in collateralized loans (+0.6 billion).

A substantial portion of amounts due from banks is represented by financing granted to the mutual banks under the pool collateral mechanism.

At June 30, 2018, net impaired loans to customers amounted to €1.29 billion (€1.35 billion at December 31, 2017), equal to 11.7% of total net lending (12.1% at the end of December 2017). The ratio of net bad debts to loans was 4.6% (5.2% at December 31, 2017), while the ratio of net positions unlikely to be repaid to loans was 6.4% (unchanged on December 31, 2016). Gross impaired assets amounted to €2.58 billion, essentially unchanged on the previous year (€2.54 billion). The ratio of gross impaired assets to gross loans was 20.5% (essentially unchanged on December 31, 2016). In the calculation of these ratios, loans to customers do not include receivables from the

Clearing and Guarantee Fund and the loans of Banca Sviluppo and Iccrea BancaImpresa for which a securitization with a GACS guarantee is under way.

The coverage ratio for impaired assets was 48.6%, an improvement on December 2017 (47%). More specifically the coverage ratio was 62.3% for bad debts – an increase of 4 percentage points on the end of the previous year (58.3%) – and 34% for unlikely-to-pay positions, in line with the previous year (34.3%). The coverage ratio for bad debts reflects bad debts acquired through the Lucrezia vehicle, which are recognized in the consolidated accounts at their transaction value rather than their nominal value, in accordance with the applicable accounting standards. Excluding that transaction, in which Iccrea Banca has undertaken to subscribe all of the notes issued by the vehicle, the Group's coverage ratio for bad debts at June 30, 2018 was 67.9%.

Holdings of financial assets measured at fair value through other comprehensive income (formerly classified as financial assets available for sale) amounted to €334 million following the sale of government securities mentioned above (-89% on the previous year) and mainly comprise government securities and minority equity interests.

Financial assets measured at fair value through profit or loss mainly comprise financial assets held for sale (€563 million), largely financial derivatives on interest rates and indices with a positive fair value held for trading purposes, and other financial assets mandatorily measured at fair value (€208 million).

Debt securities classified as financial assets measured at amortized cost amounted to €11.1 billion, a substantial increase compared with the end of the previous year as a result of purchases during the first half in execution of the new investment strategy mentioned above. As noted, about half of those securities mature within this year.

Equity investments, which are not classified as financial assets measured at fair value through other comprehensive income, comprise interests in associated companies and amounted to €112.5 million (€111.7 million at December 31, 2017), in line with the close of the previous year.

Property and equipment primarily includes properties owned and used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securfondo and the Securis Real Estate real estate funds). The decrease of €30 million compared with 2017 includes a €9.5 million decline in the value of the properties managed by the Securis Real Estate real estate funds.

Intangible assets include €21.7 million in goodwill paid for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici), unchanged on December 31, 2016. Other intangible assets amounted to €30.4 million and mainly regard software, which increased by €1.7 million compared with 2017 for a number of reasons, including the costs incurred in connection with the formation of the Mutual Banking Group.

Other assets amounted to €357.5 million, a decrease of €80 million on December 31, 2017, mainly reflecting a number of temporary items settled in the first few days of the month following the close of the year.

Non-current assets held for sale amounted to €313.3 million and comprise €46 million in loans of Banca Sviluppo and Iccrea BancaImpresa that are involved in a securitization with a GACS guarantee and, for the remainder, assets of the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

Consolidated liabilities

€/thousands	30/6/2018	31/12/2017
Financial liabilities measured at amortized cost	41,587,212	34,992,832
a) due to banks	19,333,544	19,235,105
b) due to customers	17,389,041	10,068,860
c) securities issued	4,864,627	5,688,867
Financial liabilities held for trading	517,137	356,450
Financial liabilities designated as at fair value and hedging derivatives	85.527	56,908
Liabilities associated with assets held for sale	437,311	282,047
Other liabilities and tax liabilities	454,474	663,514
Provisions for risks and charges and termination benefits	111,928	99,453
Shareholders' equity	1,491,601	1,672,282
Total liabilities and equity	**44,685,189**	**38,127,486**

Amounts due to banks (excluding bonds) amounted to €19.3 billion, essentially unchanged on December 31, 2017, the impact of an increase in amounts due in respect of current accounts and a decrease in repurchase transactions.

Amounts due to customers amounted to €17.4 billion, up 73% on the previous year, the effect of an increase in funding through repurchase transactions with the Clearing and Guarantee Fund to finance an increase in investments in government securities.

Securities issued amounted to €4.9 billion, down €0.8 billion on December 31, 2017 (€5.7 billion) due to the maturing of a number of securities, net of new bond issues on the market.

Liabilities associated with assets held for sale totaled €437 million and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

Consolidated shareholders' equity

The composition of consolidated shareholders' equity is as follows.

€/thousands	30/6/2018	31/12/2017
Share capital	1,151,045	1,151,045
Share premium reserve	4,747	4,747
Valuation reserves	40,302	73,569
Reserves	312,427	352,141
Profit (loss) for the period (+/-)	(73,122)	29,357
Equity pertaining to shareholders of the Parent Company	**1,435,399**	**1,610,859**
Equity pertaining to non-controlling interests (+/-)	**56,202**	**65,423**
Total shareholders' equity	**1,491,601**	**1,676,282**

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.5 billion, down €185 million on December 31, 2017, mainly reflecting the combined effect of:

- the recognition of the negative FTA IFRS 9 reserve of €82.6 million;
- the loss for the period of €73.1 million;
- the reduction in the OCI reserve of about €33 million, mainly owing to the sales of securities during the period.

The income statement

€/thousands	30/6/2018	30/6/2017
Net interest income	**156,394**	**156,445**
Net fee and commission income	**112,374**	**100,264**
Dividends, net gain (loss) on trading activities, net gain (loss) on hedging and net gain (loss) on assets and liabilities at FVTPL	5,395	11,681
Net gain (loss) on disposals	(48,189)	24,778
Gross income	**225,974**	**293,177**
Net writedowns/writebacks for credit risk	(52,630)	(71,702)
Net income (loss) from financial operations	**173,344**	**221,475**
Administrative expenses:	(266,410)	(236,896)
a) personnel expenses	(97,666)	(94,181)
b) other administrative expenses	(168,744)	(142,715)
Depreciation, amortization and provisions	(14,616)	(14,997)
Other operating expenses/income	44,121	48,651
Operating expenses	**(236,905)**	**(202,743)**
Profit (loss) from equity investments	3,674	2,769
Net gain (loss) from fair value measurement of property and equipment and intangible assets	(9,522)	(9,758)
Profit (loss) from disposal of investments	**297**	**-**
Profit (loss) before tax on continuing operations	**(69,112)**	**11,742**
Income taxes on income from continuing operations	**(991)**	**(158)**
Net profit (loss) pertaining to non-controlling interests	**3,019**	**2,403**
Net profit (loss) pertaining to the Iccrea Group	**(73,122)**	**9,180**

The period close with a net loss pertaining to shareholders of the Parent Company of €73.1 million, reflecting significant costs connected extraordinary events, which adversely impacted performance, including:

- the strategy of disposing entirely of the securities in the investment book (HTCS business model) as a result of a stop-loss strategy following the increase in the spread on government securities showing a capital loss of €76 million. That strategy involved a repositioning towards the HTC portfolio to improve the Group's net interest income in the coming years;
- the contribution to the National Resolution Fund (BRRD) totaling €34.8 million. The contribution also included an extraordinary component of €9.5 million called up by the Resolution Fund in respect of 2016;
- the additional administrative expenses for the establishment of the MBG in the amount of about €7.2 million.

According to management estimates, spreading the costs of the Resolution Fund costs over the entire year and not considering the capital losses on securities and the one-off costs of the MBG project, profit before tax would be about €31 million.

More specifically, **gross income** reflected the following developments:

- net interest income amounted to €156.4 million, essentially unchanged compared with the same period of 2017, reflecting the net effect of the greater contribution of government securities and the reduction in the margin in the corporate and retail segments;

- net fee and commission income amounted to €112.4 million, up €12.1 million (+12%) compared with the first half of 2017 (€100.3 million) as a result of the growth in the electronic money and asset management segments;
- the result of disposals shows a net loss of €48.2 million, a significant deterioration from the net gain posted in the first half of 2017 (€24.8 million), reflecting:
  - a net loss on the disposal of financial assets (-€63.4 million), including the impact of the loss of €76 million on the divestment of the entire investment portfolio cited above;
  - a gain on the disposal of financial assets measured at amortized cost of €17.3 million;
  - a loss on the repurchase of securities issued amounting to €2 million.

As regards **operating expenses**, the following developments occurred in the period:

- personnel expenses amounted to €97.7 million, an increase of €3.5 million on the same period of 2017, reflecting the expansion of human resources at the Parent Company;
- other administrative expenses amounted to €168.7 million, an increase of €26 million on the first half of last year. The increase mainly reflected higher National Resolution Fund contributions paid and fully expensed in the first half (+11.7 million on the first half 2017, mainly owing to additional contributions paid in respect of 2016) and the costs of the establishment of the MBG (€7.2 million in 2018, none in the first half of 2017), as well as the costs associated with Iccrea Banking Group projects and IT, marketing and logistics costs.

Net writedowns for credit risk (€52.6 million, compared with impairment adjustments of €71.7 million in the first half of 2017 including the impairment loss of €22.1 million on the Atlante fund) include €52.5 million in net writedowns of loans measured at amortized cost (€46.7 million in the first half of 2017).

Net gain (loss) from fair value measurement of property and equipment showed net loss of €9.5 million (-€9.7 in the first half of 2017), reflecting the reduction in the value of properties managed by the real estate investment funds held by the Group.

Consolidated own funds and capital ratios at June 30, 2018

The following table offers a breakdown of **own funds** at June 30, 2018, which amounted to €1.64 billion.

Capital and capital ratios - €/thousands	30/06/2018	31/12/2017*	change
- Share capital	1,151,045	1,151,045	-
- Share premium reserve	4,747	4,747	-
- Treasury shares	(24,724)	(30,847)	6,123
- Earnings reserves	387,033	432,627	(45,594)
- Net profit for the period	(70,055)	-	(70,055)
- Other comprehensive income	(11,767)	21,498	(33,265)
- Transitional provisions	99,845	(86)	99,931
- Goodwill	(16,411)	(16,415)	4
- Deductions – deferred tax assets	(20,626)	(19,368)	(1,258)
- Intangible assets	(12,143)	(12,594)	451
- Prudential filters	(1,297)	(2,475)	1,178
- Non-controlling interests	22,344	26,930	(4,586)
Common Equity Tier 1 (CET1 ratio)	**1,507,328**	**1,555,062**	**(47,734)**
Additional Tier 1 (AT1)	4,466	5,661	(1,195)
Tier 1 (T1)	**1,511,794**	**1,560,723**	**(48,929)**
- Eligible subordinated loans and eligible AFS reserves	134,928	137,610	(2,682)
Tier 2 (T2)	**134,928**	**137,610**	**(2,682)**
Total own funds (TC)	**1,646,722**	**1,698,333**	**(51,611)**

* The presentation of 2017 reflects the reclassification of the reserves from special revaluation laws from other comprehensive income to "reserves – other".

More specifically, **Common Equity Tier 1** ("CET1") at June 30, 2018 amounted to €1,504 million, a decrease of €50.8 million compared with December 2017. The decline mainly reflects:

i) the loss for the period of €73.1 million;

ii) the change in earnings reserves, the net effect of net income from 2017 allocated to reserves (+€35.5 million) and the FTA reserve (€82.6 million), ascribable in the amount of about €99 million to impairment of loans, the latter subject to a 95% filter under the "transitional provisions";

iii) the change in the OCI reserve, the effect of the developments in government securities described earlier.

Tier 1 capital (T1) at June 30, 2018 includes part of the share capital of Banca Sviluppo subscribed by the mutual banks (minority interests) under the regulatory requirements referred to in Article 86 of the CRR.
Total **own funds** (TC) amounted to €1,647 million (€1,698 million at December 31, 2017), a decrease of €51.6 million mainly attributable to the reduction in CET 1 mentioned above.

Risk-weighted assets (RWA) at June 30, 2018, which break down as shown in the following table, amounted to €12.7 billion, down €160 million on December 31, 2017, mainly reflecting reduction in the exposure to credit risk, securitizations and the CVA, partly offset by the increase in the exposure to market risk.

(RWA) - €/thousands	30/6/2018	31/12/2017	change
Credit risk, securitizations and CVA	11,241,351	11,433,811	(192,460)
Market risk	275,787	243,391	32,396
Operational risks	1,157,212	1,167,254	-
Total RWA	**12,674,350**	**12,834,414**	**(160,064)**

At June 30, 2018, the **Common Equity Tier 1 Ratio** ("CET1") amounted to 11.89 (12.12% at December 31, 2017), greater than the 9.50% required under the SREP for 2018. The **Total Capital Ratio** (TCR) was 12.99% (13.23% at December 31, 2017), greater than the 10.75% - including the capital conservation buffer (CCB) applicable at the consolidated level as from January 1, 2017 – required under the SREP for the current year.

Capital ratios	30/06/2018	31/12/2017	change
CET 1 ratio	11.89%	12.12%	-0.23%
Total Capital Ratio	12.99%	13.23%	-0.24%

5. DEVELOPMENTS IN PARENT COMPANY OPERATIONS AND THE MAIN ITEMS OF THE BALANCE SHEET AND INCOME STATEMENT

THE BALANCE SHEET

Assets

Balance sheet data (€/millions)	30/06/2018	31/12/2017	change	% change
Financial assets measured at amortized cost – Due from banks	24,591	24,561	30	0%
Financial assets measured at amortized cost – Loans to customers	4,382	5,985	(1,603)	-27%
Financial assets measured at amortized cost – Securities	10,829	0	10,829	100%
Financial assets measured at fair value through profit or loss	1,136	332	804	242%
Financial assets measured at fair value through other comprehensive income (formerly AFS)	331	3,499	(3,168)	-91%
Other assets	184	250	(66)	-26%
Total interest-bearing assets	**41,453**	**34,627**	**6,826**	**20%**
Other non-interest-bearing assets	1,427	1,391	36	3%
Total assets	**42,880**	**36,018**	**6,862**	**19%**

At June 30, 2018 total assets and liabilities stood at €42.9 billion compared with €36 billion at December 31, 2017.

The main changes reflected:

- following reclassification as a result of the introduction of IFRS 9, debt securities previously classified in the AFS portfolio, equal to €3.5 billion at December 31, 2017, were allocated to the HTCS business model. During the period, the HTCS portfolio was reduced significantly (€0.3 billion at June 30, 2018) as a result of sales as part of ordinary operations and the implementation of a stop-loss strategy connected with the increase in the government credit spread;
- investments in government securities held under the HTC business model, previously classified as measured at amortized cost, were increased to €10 billion (from €4.5 billion) as a result of the above strategy, which was also intended to boost profitability by expanding the HTC portfolio.

Mutual bank operations with Iccrea Banca are mainly in the form of financing backed by refinanceable securities (pool collateral).

At June 30, 2018, loans to the mutual banks connected with pool collateral operations, including advances from the ECB secured with refinanceable securities, amounted to €17.3 billion (of which €10 billion in respect of funds obtained through T-LTRO II). Securities received as collateral amounted to €20 billion net of the haircut applied to the various types of security. In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At June 30, loans received from Iccrea BancaImpresa securing the collateral pool amounted to €2.4 billion, which net of the haircut totaled €1.0 billion.

Due from banks (€/thousands)	30/06/2018	31/12/2017	change	% change
Mutual banks	16,618,986	16,069,582	549,404	3%
Other credit institutions	7,972,340	8,491,175	(518,835)	-6%
Total	**24,591,326**	**24,560,757**	**30,569**	**0%**

Amounts due from mutual banks increased by about €550 million, while amounts due from other credit institutions declined by €519 million.

Loans to customers decreased by €1.6 billion, from €6 billion to €4.4 billion.

Loans to customers (€/thousands)	30/06/2018	31/12/2017	change	% change
Current accounts	132,141	121,404	10,737	9%
Medium/long-term loans	88,986	95,887	(6,901)	-7%
Repurchase agreements	1,630,894	3,116,755	(1,485,861)	-48%
Other transactions	2,514,516	2,633,029	(118,513)	-5%
Impaired assets	15,440	18,163	(2,723)	-15%
Total	**4,381,976**	**5,985,238**	**(1,603,262)**	**-27%**

The change is mainly attributable to the decrease in repurchase transactions with the Clearing and Guarantee Fund in the amount of about €1.5 billion.

Securities and derivatives:

Financial assets measured at fair value through profit or loss (€1,136 million) increased by €804 million on December 31, 2017 (€332 million) in reflection of the following factors:

- an increase in derivatives positions;
- the reclassification to financial assets mandatorily measured at fair value of financial instruments previously classified under loans that did not pass the SPPI test.

The Bank's investment portfolio, which is typically composed of government securities held under the HTCS business model declined substantially during the period, to €0.3 million.

The portfolio of securities held under the HTC business model, which is mainly composed of government securities and bond issues of the subsidiary Iccrea BancaImpresa, increased to €10.8 billion at June 30, 2018.

Equity investments amounted to €1.256 billion, an increase of €63 million on December 31, 2017 (€1.193 billion), mainly due to the payment made to Iccrea BancaImpresa on account for a future capital increase (€60 million).

Liabilities

Balance sheet data (€/millions)	30/06/2018	31/12/2017	change	% change
Financial liabilities measured at amortized cost – Due to banks	19,528	19,402	126	0.65%
Financial liabilities measured at amortized cost – Due to customers	15,811	8,243	7,568	92%
Financial liabilities measured at amortized cost – Securities issued	5,114	5,874	(760)	-13%
Financial liabilities held for trading	525	365	160	43.8%
Other liabilities	280	467	(187)	-40%
Total interest-bearing liabilities	**41,258**	**34,351**	**6,907**	**20%**
Other non-interest-bearing liabilities	99	69	30	43%
Shareholders' equity	1,582	1,593	(11)	-1%
Net profit for the period	(59)	5	(64)	-1280%
Total liabilities and shareholders' equity	**42,880**	**36,018**	**6,862**	**19%**

Interest-bearing funding totaled €41.2 billion, an increase of €6.9 billion, essentially reflecting the strategy referred to in the discussion of developments in assets.

More specifically, the increase was almost entirely generated by the increase in amounts due to customers in respect of new repurchase transactions with the Clearing and Guarantee fund to finance an increase in investments in government securities.

Due to banks (€/thousands)	30/06/2018	31/12/2017	change	% change
Mutual banks	4,757,314	4,589,629	167,685	4%
Other credit institutions	14,770,964	14,811,891	(40,927)	0%
Total	**19,528,278**	**19,401,520**	**126,758**	**3%**

Interbank deposits amounted to €19.5 billion, up €127 million (€19.4 billion at December 31, 2017).

Within the overall aggregate, funding from mutual banks rose by €167 million (from €4.6 billion to €4.75 billion). The item also includes deposits received from mutual banks (€782 million) for indirect compliance with the reserve requirement.

"Other credit institutions" also includes loans from the ECB in respect of advances against securities pledged by the mutual banks and the Group, entirely represented by T-LTRO II financing of €13.9 billion.

Due to customers (€/thousands)	30/06/2018	31/12/2017	change	% change
Current accounts and demand deposits	493,733	400,771	92,962	23%
Loans	14,860,607	7,334,827	7,525,780	103%
Other payables	456,748	507,782	(51,034)	-10%
Total	**15,811,088**	**8,243,380**	**7,567,708**	**92%**

Funding from customers increased by €7.6 billion on 2017, rising from €8.2 billion to €15.8 billion. The increase mainly reflects a rise in repurchase transactions with the Clearing and Guarantee Fund.

The value of securities issued at June 30, 2018 was €5.1 billion, a decrease of about €750 million on the end of 2017 (€5.8 billion). The change mainly reflects the net impact of maturing securities in the amount of about €1.15 billion and new issues of about €400 million. The aggregate includes both bonds hedged against interest rate risk with derivatives, the amount of which is adjusted for changes in the hedged risk as at the reporting date (fair value hedges), and unhedged bonds accounted for at amortized cost. At June 30, 2018, the item also included 4 subordinated loans.

Shareholders' equity

The share capital of Iccrea Banca, represented by 22,285,487 ordinary shares with a par value of €51.65 each, is equal to €1,151 million.

At June 30, 2018 shareholders' equity excluding net profit for the period amounted to €1,582 million, a decrease of €11 million on the end of 2017 (€1,593 million). The main changes reflect the net impact of:

- €33 million from the reduction in valuation reserves following the disposals from the HTCS portfolio;
- €14 million from the increase in reserves, of which €4 million from the allocation to an extraordinary reserve of net profit and €10 million from the new FTA reserve from the first-time application of IFRS 9;
- €6 million from the decrease in treasury shares.

The income statement

Income statement (€/thousands)	30/06/2018	30/06/2017	change	% change
Net interest income	**26,070**	**13,678**	**12,392**	**91%**
Gains/losses on financial transactions	(52,375)	33,619	(85,994)	-256%
Dividends	41,615	25,065	16,550	66%
Net fee and commission income	**75,650**	**63,290**	**12,360**	**20%**
Other operating expenses/income	14,286	13,016	1,270	10%
Total revenues	**105,246**	**148,668**	**(43,422)**	**-70%**
Personnel expenses	(42,259)	(38,840)	(3,419)	9%
Other administrative expenses	(119,254)	(87,668)	(31,586)	36%
Net adjustments of property and equipment and intangible assets	(3,363)	(3,795)	432	-11%
Total operating expenses	**(164,876)**	**(130,303)**	**(34,573)**	**33%**
Gross operating profit	**(59,630)**	**18,365**	**(77,995)**	**-36%**
Net provisions for risks and charges	682	(214)	896	-419%
Net losses/recoveries on impairment of loans and other financial transactions	(6,001)	(30,956)	24,955	-81%
Total provisions and adjustments	**(5,319)**	**(31,170)**	**25,851**	**-499%**
Profit (loss) from equity investments	-	(223)	223	-100%
Profit (loss) before tax	**(64,949)**	**(13,029)**	**(51,920)**	**-636%**
Income tax expense	5,450	14,107	(8,657)	-61%
Net profit (loss) for the period	**(59,499)**	**1,078**	**(60,577)**	**-697%**

The developments in performance reflect a number of non-recurring factors that had an adverse impact on the results of Iccrea Banca, which reported a net loss of €59.5 million. These factors include:

- the contributions to the National Resolution Fund (BRRD) totaling €28.6 million. The contributions also included an extraordinary component (€7.9 million) called up by the Resolution Fund for 2016;
- the full disinvestment of the investment book (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million. That strategy involved a repositioning towards the HTC portfolio to improve the Group's net interest income in the coming years;
- administrative costs incurred for the establishment of the MBG and not yet passed through to the mutual banks of about €7.2 million.

According to management estimates, spreading the costs of the Resolution Fund costs over the entire year and not considering the capital losses on securities and the one-off costs of the MBG project, profit before tax would be more than €32 million.

Total revenues

Gross income for the first half of 2018, including other operating income (€14.3 million) amounted to €105.2 million, a decrease of €43.4 million on the €148.6 million posted at June 30, 2017. The change is mainly attributable to the net impact of:

- an increase in net interest income (€12.4 million) due to an increase in yields on securities, partly reflecting the establishment of the tactical portfolio;
- an increase net fee and commission income (€12.4 million), mainly in the e-money segment;
- an increase in dividends (€16.5 million);
- a decrease in the net gain on trading and hedging activities (€5.3 million);
- a decrease in the net gain on financial assets and liabilities measured at fair value through profit or loss (€7.3 million). More specifically, as a consequence of the introduction of IFRS 9, this item reports the results of financial assets mandatorily measured at fair value as a result of not passing the SPPI test, the amount of which was significantly affected by the writedown of units in the Immobiliari Securis funds (€8 million);
- a decrease in the gain on the disposal or repurchase of financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income (€73.4 million). The change in this item mainly reflect the full disinvestment of the investment portfolio (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million;
- an increase in other operating income (€1.3 million).

Personnel expenses

The Bank's personnel expenses in the first half of 2018 amounted to €42.3 million, compared with €38.9 million in the year-earlier period, an increase of €3.4 million. The rise is attributable to the expansion of the governance structures of the Parent Company, partly in response to the upcoming formation of the Mutual Banking Group.

Other administrative expenses

At June 30, 2018 other administrative expenses amounted to €119.3 million, which included the ordinary contribution of €21 million to the National Resolution Fund for all of 2018 and an extraordinary contribution of €7.9 million called up by the Fund for 2016, representing an overall increase in those contributions compared with the year-earlier period of about €9.7 million. Administrative expenses also include costs for the formation of the MBG (€7.2 million) that have not yet been passed through to the mutual banks. The item also includes indirect taxes and duties of €7.4 million.

Net adjustments of property and equipment and intangible assets

Total net writedowns amounted to €3.4 million in the first half of 2018, of which €2.2 million in adjustments of property and equipment and €1.2 million in adjustments of intangible assets.

Operating expenses

Operating expenses in the first half of 2018 amounted to €165 million (€130.3 million in the first half of 2017) and include personnel expenses of €42.3 million, other administrative expenses of €119.3 million and net adjustments of property and equipment and intangible assets of €3.4 million.

Net provisions for risks and charges

At June 30, 2018, the item was a positive €0.7 million.

Net losses/recoveries on impairment of loans and other financial assets

Net losses on impairment of loans and other financial assets amounted to €6 million and mainly include an increase in writedowns of Lucrezia notes of about €3.5 million and of a non-performing position in the amount of about €1.9 million.

Net loss for the period

The net loss for the period amounted to **€59.5 million** and includes the positive effect of direct income taxes (€5.4 million) arising essentially from the following developments:

- the operating loss;
- income from the transfer of the loss to the consolidated taxation mechanism;
- the reversal of deferred income taxes on the installments of the capital gain realized in 2014 from the sale of "depositary bank" operations.

6. DEVELOPMENTS IN THE OPERATIONS OF GROUP COMPANIES

6.1 SUBSIDIARIES

Iccrea BancaImpresa SpA

As at June 30, 2018, assets totaled €8.2 billion, compared with the €8.3 billion of December 31, 2017. The decrease is essentially attributable to the aggregate "Financial assets measured at amortized cost: loans to customers" (which decreased by 3.6%), the balance of which fell to €7.6 billion from the €7.9 billion as at the end of 2017.

Problem loans before provisions increased by around 2% (net of adjustments, they decreased by 6.4%). Not including the portfolio for which a securitization benefiting from GACS guarantee mechanism was begun, there was a 1.5% decrease in gross value and an 8.2% decrease in net value.

The bank closed the first half of 2018 with an increase in the total gross exposure for non-performing loans (€992 million, +10.6% compared with 2017), while the coverage ratio for these positions increased (51%, compared with 46.6% at the end of 2017).

As a result, net non-performing loans fell to €325 million, or 4.3% of total lending (4.4% in 2017).

Gross exposures unlikely to be repaid at June 30, 2018, totaled €891 million, a decrease of 7% compared with 2017. The coverage ratio for these exposures remains high, rising from 33.5% in 2017 to 33.7% in June 2018. Net unlikely-to-pay positions, totaling €591 million, decreased by 7.3% compared with 2017 and amounted to 7.8% of total loans to customers (8.1% in 2017).

Amounts due to banks posted a decrease (€408 million, down 15%), essentially due to a decline in advances with Iccrea Banca, which were partially offset by an increase in new bond issues (of about €260 million).

The Bank's shareholders' equity benefited from amounts paid in respect of future capital increases in the amount of €60 million, which was approved by the Parent Company on February 22, 2018.

Net interest income amounted to €80.0 million, compared with €91 million for the same period of the previous year (down 12%). This decrease was mainly due to the full disinvestment of the securities portfolio in October 2017.

Net fee and commission income, which refers to other commissions not attributable to specific lending and funding contracts, showed net income of €4.0 million, a 7% decrease compared with the same period of 2017, when the aggregate totaled €4.3 million.

Net income from trading activities amounted to €0.2 million and includes, in addition to the negative differences recognized on foreign exchange transactions, the commissions recognized on transactions in derivatives with customers and the determination of counterparty risk in calculating the fair value of derivatives to customers.

The net result on other financial assets and liabilities measured at fair value through profit or loss amounted to a net loss of €1.8 million. This item includes the impairment of units in collective investment undertakings (equal to the entire amount of the item), which in the previous financial statements had been classified under provisions at item 130 (a total of €0.5 million).

Overall, therefore, gross income came to €91.5 million, compared with €103.2 million for the first half of 2017, a decrease of 19%.

With regard to the impact of credit risk management on the income statement, item 130 came to €39.2 million (€38.8 million for the same period last year). It should also be noted that, as at June 30, 2017, writedowns of guarantees were recognized under item 130 (in the new financial statement layout, they are reported under item 170 "Net provisions for risks and charges"), as were adjustments to the fair value of units in CIUs, which are now classified under item 110, in line with the new schedules, and which came to €0.5 million for the same period of the previous year.

Personnel expenses are essentially unchanged compared with the same period of 2017 (€16.4 million for the first half of the year).

Other administrative expenses, amounting to €19.3 million, increased by 10% compared with the first half of 2017 (€17.5 million), mainly due to greater contributions to the National Resolution Fund (€5.2 million, compared with €3.8 million last year).

Provisions for risks and charges amounted to €0.3 million (€0.9 million for the same period of 2017).

This aggregate includes provisions for risks in respect of guarantees, which were reported under item 130 last year. Depreciation and amortization were essentially in line with the first half of 2017.

Other operating expenses and income showed net expense of €4.7 million, compared with net expense of €3.1 million for the same period of 2017.

Losses on equity investments, in the amount of €2.3 million, refer to the impairment recognized during the period to align the value of the investment in BCC Factoring with the value of shareholders' equity (which decreased due to FTA for the new IFRS 9) .

As a result, the bank's cost-to-income ratio stands at 44.6%, up from the 36.8% of the previous period.

In the first half of 2018, the bank posted a gross operating profit of €9.2 million, compared with €26.3 million for the same period of the previous year. Net of tax effects, profit for the first half of 2018 amounted to €10.9 million, compared with €19.4 million for the previous year.

The tax impact at June 2018 came to a positive €1.7 million, compared with a negative €6.9 million for the period to the end of June 2017.

BCC CreditoConsumo SpA

At June 30, 2018, lending amounted to €914 million (€932 million at December 31, 2017), reflecting a contraction in the volumes originated by the distribution network of about 25% deriving from the establishment of the other group headed by the other parent company of the mutual banking system.

Payables amounted to €868.1 million and are represented by the funding provided by the Parent Company, Iccrea Banca (€765.6 million), third-party lenders (€101.6 million) and other amounts due to customers for the remainder (€0.9 million).

As at June 30, net interest income amounted to €20.7 million, a decrease compared with 2017 (€22.8 million) as previously reported. Gross income showed a similar pattern, totaling €22.6 million, compared with €24.4 million for the first half of 2017.

Administrative expenses, amounting to €7.7 million (€10.1 million at June 30, 2017) include €2.4 million for personnel expenses and €5.3 million for other administrative expenses.

The substantial decline compared with the same period of the previous year is mainly due to the completion of the Matrix project. The cost of risk amounted to €5.6 million, compared with €7.9 million for the same period of the previous year, thanks to the strong performance of the portfolio and the increased efficiency of credit recovery efforts.

Gross operating profit came to €10.5 million, which, net of estimated taxes of €3.4 million, produced to a net profit of €7.1 million.

BCC Lease SpA

During the first half of 2018, the company launched a joint development plan with the Parent Company focused on organic growth in volumes in existing markets and on the gradual expansion of operations in the heavy vehicle segment.

With regard to the latter in particular, in the first half of the year operations in the heavy vehicle segment through the agent channel were begun. At the same time, the preparatory work for the start of operations through the mutual bank channel was completed, activating operations at a number of test mutual banks.

The progressive roll-out to the remainder of the mutual banks will begin in the second half of the year.

On the commercial level, in the first half of 2018 the company was once again a key partner in the small-ticket leasing segment for the mutual banks and in the Italian market, and was one of the major domestic players in the operating and small-scale capital equipment finance leasing, segments in which it has long adopted a "vendor" approach.

Thanks in part to incentive measures that were also in place during the previous year, and in particular the "Sabatini Act" and "super-amortization", the leasing market posted positive performance in 2017.

Within this favorable context, as at June 30, 2018 BCC Lease had received some 14,800 applications with a value of €197 million, an increase of 8% in number and 22.2% in value compared with the same period of the previous year. In the same period, new lending amounted to €120 million from 10,600 contracts, an increase of 12.4% in the number of transactions and 20.7% in value.

The product that posted the greatest increase for the period was auto leasing by agents, which reached full operations after an initial period of testing. The excellent growth in targeted financing continues, thanks to operations related to a number of major agreements with producers.

The value of impaired loans at June 30, 2018, fell to €26.6 million, compared with €31.6 million the previous June and €28.4 million at the end of December 2017.

The ratio of such loans to the total loan portfolio before provisions, which stood at 8.6% in June 2017, fell to 6.3%.

Interest income amounted to €11.1 million, up 5% compared with June 2017. Interest expense decreased in absolute terms compared with the previous year, to €1.7 million, so net interest income is slightly higher than in the first half of last year, reaching €9.4 million compared with €8.7 million at June 30, 2017.

The cost of risk for the period came to €2.3 million and is lower than both that of the previous year (when it came to €2.5 million) and the budget forecast (which called for a total of €2.8 million). This performance is tied to the gradual reduction in impaired positions, which, despite an increase in the coverage ratio to nearly 72.6%, led to a larger than expected decline in impairment losses.

The company's operating costs, in the amount of €3.5 million, rose slightly compared with the first half of 2017 (€3.3 million) but were lower than budgeted, given that a higher level of costs was expected due to the integration of new resources (still to be implemented) connected with the project to begin operations in heavy vehicles.

The net balance of other operating costs and other income came to €2.2 million in June 2018, compared with €2 million in June 2017.

Net profit for the period amounted to €5.1 million, an increase of 28.6% compared with the same period of the previous year (€3.9 million), outpacing budget forecasts.

BCC Risparmio & Previdenza SGRpA

Total assets managed or placed by BCC Risparmio & Previdenza amounted to €15.2 billion, a decrease of €106 million compared with 2017. Net funding totaled €190 million.

Assets under management by the company break down as follows:

- 12.97% in investment funds;
- 13.75% in coupon funds;
- 4.06% in supplemental pension funds;
- 19.07% in portfolio management products;
- 50.15% in third-party SICAVs.

The asset management company closed the first half of 2018 with pre-tax profit of €8.7 million, a slight decrease compared with the previous year (€9.1 million for the first half of 2017). Net of taxes of about €2.8 million, net profit comes to around €6 million. More specifically, the main factors contributing to this performance were the following:

- an increase of 2.4% in management fees for investment funds, which amounted to about €26 million, compared with €25.4 million in 2017. Fee and commission income incorporates NAV calculation fees of about €1 million in 2018 and €682 thousand in 2017, while the corresponding expense is, as provided for in applicable regulations, recognized under other administrative expenses. Net of this amount, growth would have been 1.3%;

- an increase in performance fees, which rose from €655 thousand in 2017 to €1.05 million in 2018;
- an increase of about 17.6% in fees and commissions relating to the placement of third-party SICAVs, which rose from €34 million to €40 million. Of the total, €18.7 million were generated by BCC R&P brand funds and €21.2 million by third-party funds;
- an increase in management fees for pension funds, which went from €3.4 million to €4 million (+18%), while the number of members increased by about 18% compared with the previous year.

As a result of the above, management fees passed through to placement agents also increased substantially, going from €46.6 million in 2017 to €52.7 million in 2018, an increase of 13.2%.

With regard to costs for 2018, personnel expenses increased from €2.2 million in 2017 to €2.4 million (+7.9%). Other administrative expenses (about €7.2 million) posted an increase of 21.2% as a result of the following:

- the classification of the cost for outsourcing the NAV calculation service to the depositary bank under other administrative expenses (€1 million, while the corresponding income item is recognized under fee and commission income);
- an increase in costs associated with ongoing projects.

Provided below are details on developments in the individual business lines.

a) Investment funds

The year 2018 showed total net funding of €87.5 million. In March, the coupon fund denominated "Aureo Cedola II – 2017", which reached expiration, was merged into "Investiper Obbligazionario Breve Termine", resulting in a migration of assets between the two product families in the amount of €75.4 million, net of which total net funding of investment funds would be €12.1 million.

The total assets managed by funds and funds of funds amounted to €1.97 billion in June.

Furthermore, in 2018 the two PIR Compliant funds "Investiper Italia PIR 25" (as from April 2017) and "Investiper Italia PIR 50" (as from October 2017) raised, respectively, €57 million with 21,852 contracts and 154 active banks and €25 million with 6,004 contracts and 132 active banks.

b) Coupon funds

Overall, coupon funds posted net redemptions of €180 million (€104.3 million net of the effect of the merger mentioned above). Total assets in coupon funds as at June 2018 amounted to €2.1 billion. On March 16, 2018, the fund "Aureo Cedola II - 2017" was merged (into the fund "Investiper Obbligazionario Breve Termine").

c) Supplemental pension funds

In 2018, the company confirmed the positive trend in funding in supplemental pension funds, attracting net funding of €59.5 million for total assets under management of €617 million.

d) Securities investment products, institutional asset management, insurance asset management

Net funding was positive at €153 million, divided into the following lines: (i) retail (€152 thousand); (ii) institutional (€28.9 million); (iii) insurance asset management (€123.8 million). Total assets under management amounted to €2.9 billion in June.

e) Third-party SICAVs

Total assets placed by June amounted to €7.6 billion and posted net funding of €69.5 million. As planned, the company launched three new funds in collaboration with selected partners for total funding of about €632 million.

The overall effect of platform inflows and outflows since the beginning of the year, following mutual banks' decisions about which mutual banking group to join, had a negative impact on funding and assets in the amount of €360 million.

However, redemptions for the fund Schroder SSF BCC Cedola Paesi Emergenti 2019, which showed net redemptions of €373 million, also weighed heavily on inflows, and the fund is the subject of a merger plan finalized in early July 2018.

Banca Sviluppo SpA

In the first half of 2018, Banca Sviluppo SpA continued with the sale of branches to the local mutual banks in line with the mission of the bank as stated in the bylaws, as well as with the strategic guidelines issued by the Parent Company.

During the period, preparatory activities for the presentation of the purchase offer for ten branches located in the Veneto region and relating to the business unit of interest to BCC Rome were completed. The transaction ended with the presentation and acceptance by the board of directors of the related binding offer.

The company continued analysis for the sale and integration operations with local entities for the areas of Calabria, Romagna and Campania. In the Veneto area, the assets to be sold to Cerea Banca 1897 were redefined, with the involvement of three branches in the province of Verona (Verona, Villafranca, San Giovanni Lupatoto), while the remaining six Veneto branches in the province of Padua (Este, Monselice, Conselve, Tribano, Baone, Padua) were to be transferred to Banca Patavina.

The remaining sales agreed during the previous year were also completed, involving: the Aversa branch for BCC di Terra di Lavoro; the Mantua branch for BCC di Rivaloro Mantovano and BCC Cremasca; the branches in Catania and Santa Teresa di Riva for BCC di Pachino and the Milazzo branch for BCC di Regalbuto. Overall, the number of transactions completed involved 5 branches, 14 employees, €47.2 million in total funding, and €39.5 million in gross lending.

In order to provide significant indicators and sterilize the effect of the disposals completed during the previous year, the analysis of the changes in average volumes of funding and lending makes comparisons with December 2017.

In June 2018, the average value of lending to ordinary customers decreased by 5.91%, falling to €874 million. This trend breaks down into a limited decrease in the short-term component (cash and self-liquidating assets, down 1.35%) and a steeper decline in the medium-long term component (mortgages down 6.71%). Net of the lending involved in sale transactions (€39 million), disbursements for the period only partially cover principal amounts falling due and transitions to non-performing status. In June, the State-guaranteed securitization transaction of non-performing positions coordinated by the Parent Company was completed for a gross value of €109 million.

The average value of direct funding from ordinary customers was down slightly compared with December 2017 (-0.9%), settling at €1,543 million. This decrease was partly due to the sale of branches concluded during the period, which resulted in an outflow of direct funding of €39 million. In terms of product types, the shift from medium and long-term products to demand and short-term deposits continues.

In terms of financial performance, given the sale of 19 branches over the last year, a comparison with the corresponding period of the previous year is not significant; therefore, a comparison with budget figures is provided below.

Net interest income outpaced the forecast by €2 million, reaching €13.8 million due mainly to the collection of interest on non-performing loans in the amount of €1.8 million, which was not forecast in the budget figures. Net of this item, net interest income was €203 thousand above the budget estimates (+1.72%).

Gross income amounted to €25.7 million, exceeding the budget by €2.1 million due to the factors described in relation to net interest income.

Operating expenses, amounting to €25.8 million, were essentially in line with the budget figures for personnel expenses (up €198 thousand, or 1.4%) and slightly higher than the budget for other administrative expenses (up €871 thousand, or 6.86%), the latter due to higher IT costs, outsourcing costs, and the additional contribution to the Resolution Fund (up €783 thousand in the first half, of which €213 thousand for the additional contribution, and €532 thousand compared with the previous period). Lower costs than budget forecasts were incurred for legal, notary and loan-collection costs in the amount of €295 thousand.

Writebacks on exposures unlikely to pay and collective writebacks for the sale of performing loans enabled the company to increase its coverage ratios.

The income statement as at June 30, 2018, reported a profit before taxes of €115 thousand.

BCC Sistemi Informatici

In the first half of 2018, the company's activities focused not only on the usual objectives of maintaining the information system for banks, but also on participation in projects for regulatory compliance upgrades, the establishment of the Mutual Banking Group, and the definition of new functional processes aimed at standardizing migration approaches.

The company posted a net profit of €984 thousand at June 30, 2018.

Value of production amounted to €43 million, increasing from the same period of the previous year by €2.7 million. The figure was affected by the increase in indemnities for early termination of service contracts in the amount of about €1 million referable to customers that transferred to another IT system, €1.7 million related to services mainly for the centralization within BCC SI of services dedicated to the other companies of the Group and to the advanced level of expected dissemination of the new technological services (advanced digital signature, Virtual Desktop Infrastructure), the distribution of which had begun at the end of the previous year, and, finally, €0.2 million for amounts invoiced as a result of the greater number of database mergers between mutual banks involved in extraordinary corporate transactions.

The increase of €1.2 million in costs of production, which stood at €41.5 million in the first half of 2018, was mainly due to the offsetting of increases and decreases in the main items of which it is composed. The increases include €2.2 million in costs for services, mainly attributable to the greater use of technical and specialist consulting, while the decreases include €1 million in costs for the use of third-party assets, mainly due to the agreement with IBM, a key provider of IT infrastructure management services, which resulted in a partial rationalization of expenses.

BCC Solutions

During the first half of 2018, BCC Solutions completed the real estate redevelopment and urban development project at the Lucrezia Romana headquarters complex. It also continued its facility management activities for the Iccrea Banking Group offices and the offices of the subsidiaries.

In this area, the constant application of advanced property and facility management methods and processes enabled the achievement of operational and strategic objectives that had a positive impact both at company level and within the Iccrea Banking Group community.

The first half of 2018 closed with net profit of €1.5 million, after recognizing negative taxes of €0.7 million.

The overall performance for the company is structurally oriented towards financial equilibrium, remaining comfortably in the black and posting a contraction in operating costs and a proportionate change in core revenues, which amounted to about €18.5 million with operating costs of €13 million.

The increase in capitalized costs (+2.33%) is attributable to the additional expenditure related to the Lucrezia Romana expansion project and the data-processing center restructuring work implemented in the first half of 2018.

Equity remained above €57 million, posting a slight decrease (-0.84%) compared with the 2017 financial statements after the distribution of dividends totaling €2 million.

BCC Factoring

The half year ended June 30, 2018, closed with profit for the period of €48 thousand. Shareholders' equity totaled €18.7 million and own funds €20.8 million. Company performance at the end of the first half of the year was weaker than budget forecasts but in line with the figures posted by the factoring market as a whole.

Turnover stood at €779 million, down both on the budget forecasts for the period (-23%) and on the same period of 2017 (-12.5%). Of total production, 72% was accounted for by non-recourse operations and 28% by with-recourse transactions. As at June 30, 2018, the average outstanding totaled €438 million.

Net lending came to €406 million, compared with €512 million at the end of 2017. As with turnover, average lending at the end of the period was lower than last year, decreasing from €454 million to €388 million.

Non-performing loans (NPLs) posted a significant increase compared with the end of 2017 following the classification of a significant position as unlikely to pay (UTP). On the whole, gross NPLs totaled €91.2 million, of which bad debts totaled €24.7 million, UTPs stood at €25.9 million, and impaired past-due came to €40.7 million (at December 31, 2017, the corresponding values were €27.9 million in bad debts; €11.7 million in UTPs and €27.2 million in impaired past-due positions).

In accordance with the guidelines of the Parent Company, within the scope of the broader process of reducing the stock of impaired NPLs, in the first half of the year, with the support of Iccrea Banca as advisor, BCC Factoring launched planning for the non-recourse disposal of the portfolio in preparation for completion of the sale scheduled to take place within the second half of the current year. More specifically, the portfolio comprises receivables originated by BCC Factoring as part of its core business (i.e. financing in the form of factoring transactions), which had already been classified as bad debts or unlikely-to-pay positions, with a total nominal value of about €31.7 million (net carrying amount of €1.2 million), consisting of positions classified as bad debts and UTPs.

The coverage ratio of unlikely-to-pay positions and bad debts is equal to 62.46%, of which 98.05% for bad debts and 28.55% for UTPs. Net unlikely-to-pay exposures and bad debts totaled €19 million.

In terms of performance, the half year ended at essentially breakeven (a net profit of €48 thousand) due mainly to a failure to achieve the period targets for business volumes (which prevented the company from offsetting the general decline in pricing) and to an increase in personnel expenses (up €142 thousand due to an expansion of the workforce in 2018). Other administrative expenses also increased (up €200 thousand) due to a rise in mandatory software upgrades during the period, as well as to increases in costs for internal audits and external legal counsel.

Collective writedowns of performing loans also had a positive impact on performance for the period, as they decreased compared with the end of 2017 due both to an improvement in credit quality and to the new models implemented following the introduction of IFRS 9 in January 2018. The overall net positive impact was €373 thousand.

Net interest income at June 30, 2018 came to €2.195 million, down 10% compared with the same period last year.

The reduction in fees and commissions was due on the income side to the decline in turnover and pricing and, on the expense side, to an extraordinary item of about €75 thousand related to the adjustment of the Euler premiums for the previous year.

BCC Gestione Crediti

The first half of 2018 closed with markedly improved performance compared with the same period last year. The company increased revenues by about €2.4 million (+29% compared with the first half of 2017). Expenses posted an increase of 9% compared with the previous period. The increase in revenues for the period, net of this increase in administrative costs, produced an EBITDA of about two and a half times the EBITDA of the previous year (€2.9 million, compared with €1.1 million) as a result of the strengthening of asset management activities and an overall increase of 32% in the volume of collections (€74 million, compared with €50 million in 2017).

Net profit for the period came to €2.14 million, an increase of 60% compared with the same period of 2017.

BCC Retail

The accounts for the first half of the year closed with net profit of €208 thousand, mainly due to extraordinary income recorded in the first half following the indemnity received from OldMutual in the amount of €0.4 million.

The total value of production came to €2.5 million, an increase of €396 thousand (+18.83%) compared with the previous period due to the factors described above.

Overall, production costs for the first half amounted to €2.1 million, an increase of €0.84 million compared with the previous year.

6.2 ASSOCIATES

BCC Vita SpA

The company posted a profit of €8.9 million at June 30, 2018, compared with a profit of €5.4 million for the same period of the previous year, with premiums for class I products accounting for 59.7% of the total and class III premiums accounting for 38.8%.

This performance was characterized by:

- gross premium income of €254 million, up €100 million compared with June 30, 2017, of which €51 million is attributable to class I and €50 million to class III;
- a life underwriting result that went from €0.16 million to €2.22 million;
- the positive contribution of finance activities to net interest income in the amount of €11.33 million, up from €8.08 million as at June 30, 2017 (+40.3%). This change was due to an increase in net gains on disposals of investments, which came to €1.72 million, compared with €0.52 million at June 30, 2017, a decrease in unrealized losses, which went from a negative €2.22 million to negative €0.10 million as at June 30, 2017, and a reduction in ordinary income attributable to interest income and expense, which went from €34.96 million as at June 30, 2017, to €31.35 million (-10.3%), offset by the reduction in technical interest from €24.79 million on June 30, 2017, to €21.30 million (-14.1%);
- the freeing up of supplemental technical reserves in the amount of €2.4 million, compared with €2.9 million at June 30, 2017, a change that represents 0.10% of class C technical reserves;
- the impact of dormant death-benefit policies net of reinsurance in the amount of a negative €1.14 million.

With regard to the balance sheet, investments totaled €3,028.2 million (of which €415.2 million in class D) for an increase of 3.7% compared with the €2,921.2 million (of which €336.7 million of class D) of December 31, 2017.

This increase is also reflected in the life technical reserves, which totaled €2,921.8 million at June 30, 2018, of which €415.2 million in class D, an increase of 4.1% compared with December 31, 2017 (€2,806.8 million, of which €336.7 million in class D).

BCC Assicurazioni SpA

The company posted a loss of €175 thousand as at June 30, 2018, compared with a net profit of €284 thousand for the same period of the previous year.

This performance was characterized by:

- gross premium income of €20.2 million, down 0.5%. Earned premiums for the period amounted to €18.5 million, compared with €19.9 million at June 30, 2017, a decrease of 7%;
- an underwriting result gross of reinsurance that went from €2.9 million to June 30, 2017, to €1 million at June 30, 2018; a combined ratio that rose from 85.5% to 94.5% at June 30, 2018; and a ratio of incurred claims to earned premiums for the period that went from 38.5% to 35.3%, while the ratio of operating expenses to earned premiums increased from 40.4% to 42.7%;
- a combined ratio on retained business that went from 100.9% to 102.2%;
- writedowns of receivables from policyholders due to non-collectability for an impact on the technical result of about €776 thousand gross;
- net income on finance activities of €194 thousand, up from €176 thousand for June 30, 2017.

In terms of the balance sheet, investments, including cash and cash equivalents, came to €34.4 million, an increase of 6.3% compared with December 31, 2017, and the reinsurers' share of technical reserves recognized under assets

totaled €37.9 million (€38.1 million at December 31, 2017). Technical reserves recognized under liabilities came to €58.2 million, compared with €56.7 million at December 31, 2017.

7. MAIN RISKS AND UNCERTAINTIES TO WHICH THE ICCREA BANKING GROUP IS EXPOSED

RISKS

The Iccrea Banking Group conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the primary responsibilities of supporting and serving the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

The Group develops and implements its risk management process in accordance with the applicable regulations and continually adapts its arrangements based on changes in the regulatory framework and in the market environment and internal operations.

The internal control system monitors risk management process to ensure that it is comprehensive, suitable and functional (by being effective and efficient) and that they are consistent with the risk appetite framework.

The Group has adopted risk management policies and has implemented, in accordance with supervisory regulations, the risk appetite framework (RAF), internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP).

The objective of the RAF is to establish a reference framework for determining appetite for risk, which sets ex ante the risk/return targets that the bank plans to meet and the consequent operational limits. Therefore, formalizing the risk objectives consistent with maximum risk sustainable, the business model and the strategic policies by defining the RAF is crucial to establishing a risk governance policy and a risk management process based on the principles of sound and prudent business management.

ICAAP and ILAAP seek to provide an internal assessment of the current and prospective adequacy of capital with respect to the exposure to risks that characterize operations and the operational and structural liquidity profile.

Therefore, it is critically important that the Group work continuously to accurately identify the risks to be assessed. Once the significant risks are identified, the ICAAP involves assessing the risks to allocate internal capital and determine the total capital to cover them, currently and prospectively. This includes performing stress tests to assess the Group's vulnerability to exceptional, but plausible, events.

Given the Iccrea Group's mission and operations, as well as the market environment in which it operates, the risks identified as significant and subject to assessment through the internal assessment process are the following:

- **credit risk**: the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction;
- **market risk**: risk of incurring losses arising from unexpected adverse movements in market prices of financial instruments, currencies and goods. The following sub-categories are the most significant:
  - **risk on the trading book position**, i.e. the risk arising from fluctuations in the price of securities;
  - **credit spread risk**, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- **credit valuation adjustment (CVA) risk**: a "credit valuation adjustment" is an adjustment of market's interim assessment of transactions with a counterparty. That adjustment reflects the current market value of counterparty risk in respect of the entity. It does not reflect the current market value of the entity's credit risk in respect of the counterparty.
- **operational risk**: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;
- **interest rate risk on the banking book:** risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;

- **concentration risk**: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- **strategic risk**: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes;
- **sovereign risk**: risk of loss arising from a sovereign state counterparty defaulting on is contractual obligations or a decline in the sovereign counterparty's credit rating;
- **real estate risk**: risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations;
- **equity risk**: risk of loss arising from a change in the value of equity instruments in the banking book;
- **liquidity risk**: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the existence of restrictions on the sale of assets (market liquidity risk) resulting in capital losses;
- **residual risk**: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

UNCERTAINTIES

Uncertainty is defined as a possible event whose potential impact, ascribable to one of the categories above, is not at the moment determinable and therefore not quantifiable. The current macroeconomic and sectoral environment show:

- the high percentage of capital allocated to low-return credit operations;
- a regulatory and legislative system that is besieging the banking system, requiring greater protections and continually raising capital requirements.

These elements are all factors that must be given due attention.

In order to develop and implement a suitable strategy for managing NPLs in particular, banks must upgrade their internal organizations and, in particular:

- regularly assess and review the operational environment, including internal capabilities, external conditions (macroeconomic, market, investor, servicing, regulatory, tax conditions, etc.);
- analyze and make projections about the capital implications;
- consider/analyze all the strategic options available, including in combination with one another, including a hold/forbearance strategy, active portfolio reductions, including through sales, enforcement of collateral and legal options including out-of-court solutions;
- establish portfolio targets (including foreclosed assets), determining levels of NPLs sustainable in the short and medium/long term;
- prepare an operational plan containing investments (e.g. IT and information flows), staffing requirements, organization, etc.;
- provide to the ECB an annual report on NPL management strategy and targets and the relative operational plan;
- periodically review the strategy and underlying assumptions;
- implement reporting flows on NPL targets and on operational effectiveness;
- align the management strategy with the associated incentive systems;
- integrate the strategy into the business plan, in projections and in the risk management system.

An assessment was made of the risks and uncertainties described above to underscore the effect of changes in parameters and market conditions on business performance. The Group has implemented tools for measuring the potential impact of risks and uncertainties on its operations (specifically sensitivity analysis and stress testing), which enable it to promptly and continually adjust its strategies – in terms of the model for distribution, organization and management/rationalization of costs – to changes in its environment. Risks and uncertainties are also under constant observation through the risk policies adopted by the Group: the policies are updated to reflect changes in strategy, the operating environment and market expectations. They are monitored periodically to check the status of their implementation and their suitability. The analyses conducted indicate that the Group is able to address the risks and uncertainties to which it is exposed, confirming the going-concern assumption.

8. INTERNAL CONTROL SYSTEM

In the design of its internal control system, the Group followings the principles set out in applicable legislation and by the supervisory authorities, with a special focus on the following:

- proportionality, namely adopting a regulatory framework based on the nature of the business conducted, the type of services performed, the complexity of operations and the size of the company and the Group;
- integration, that is, finding mechanisms that coordinate and harmonize the actions of the various actors in the internal control system, using methodologies that provide top management with comprehensive, usable information generated by an integrated assessment process enabling a unified vision for making information decisions;
- cost effectiveness, in the sense of the search for an appropriate trade-off between the overall cost of control and effective management of risks;
- evolution, namely the on-going search for mechanisms to improve the structure, effectiveness and efficiency of the internal control system.

The following fall within the scope of the Parent Company's duties:

- to provide the Group with a unified internal control system that enables effective internal control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members;
- to make all Group members aware of the importance of the ICS, including the contribution that all structures can make to improve its efficiency and effectiveness;
- determine the Group's risk profile through the definition of the Group RAF, ensuring the consistency of the latter with the operations, complexity and size of the Group and taking due account of the specific activities and associated risks of each company belonging to the Group;
- to implement systems for monitoring cash flows, lending and other interactions between Group members;
- to activate controls to meet IT security and business continuity targets for the entire Group and for each member;
- to continually monitor the different risk profiles contributed to the Group by each subsidiary and the Group's overall risks.

Group boards and committees operate within the internal control system and are primarily responsible, each according to its competencies, for ensuring that the internal control system is comprehensive, suitable, functional and reliable. Specifically:

- the Board of Directors of the Parent Company approves the risk management policies and structure of the corporate and Group ICS, ensuring that it is compliant with the organizational principles established by supervisory instructions on an ongoing basis, consistent with the Group strategy and RAF and effective in identifying developments in corporate risks and connections among them;
- the Parent Company's Executive Committee – as well as the boards of directors of the subsidiaries – oversee the implementation of strategic policies, the RAF and the risk governance policies, and take all the necessary steps to ensure that the organization and the ICS comply with current standards and regulatory requirement;
- the Risk Committee assists, in its role as advisory body, the Parent Company's Board of Directors in performing its ICS duties and, in particular, in assessing the ICS's effectiveness and suitability;
- the boards of auditors of the Parent Company and of the subsidiaries monitor compliance with the laws, regulations and bylaws, sound management, the suitability of the organizational and accounting structures of the Company and the Group, in close collaboration with the Corporate Control Functions;

- the top management of the Group companies takes the steps needed to ensure that the internal control system remains efficient and effective commensurate with the risks associated with business operations, in line with the individual companies' internal regulations and procedures.

The Corporate Control Functions (CCFs) are autonomous and independent structures ensure the proper and efficient functioning of the ICS. The organizational structures that are CCFs are the following:

- the second-level risk management function, which is responsible for controls on risk management activities;
- the second-level compliance and anti-money laundering function, which is responsible for controls on compliance with applicable legislation and combatting money laundering and the financing of terrorism;
- the third-level internal audit function, which is responsible for controls that involve assessing the completeness, suitability, functionality and reliability of the organizational structure and the other components of the internal control system.

Also involved in monitoring the effective performance of operations are all the operational and business structures of the Parent Company and the subsidiaries, through the controls conducted in the course of the corporate processes in which they are involved (e.g. hierarchical, systematic and sampling controls) or through units whose sole function is to perform controls and report to the heads of the operational areas, or that perform them in the context of back-office functions.

The Parent Company establishes, by issuing regulations, the standards, criteria and primary responsibilities of the CCFs, defining the relationships between them and the corporate boards.

The subsidiaries, in accordance with the organizational and governance guidelines provided by the Parent Company, establish the CCFs and issue the relative internal regulations. Subsidiaries that are not banks or financial companies, while not subject to the supervisory regulations on internal controls, must still appoint a contact person with whom the heads of the Parent Company CCFs can coordinate in implementing the Group's integrated ICS.

The CCFs of the Group companies are autonomous and independent. With regard to second- and third-levels, the CCFs of the Parent Company and the subsidiaries report directly to the boards of directors.

To ensure smooth interaction among all the CCFs and between them and the corporate boards, a series of coordination and collaboration mechanisms (in addition to those called for under internal regulations) has been established to maximize synergies and avoid overlap, redundancies or shortcomings in the system. Coordination and interaction between the CCFs occurs in the following phases:

- planning, carried out on the basis of a thorough analysis that takes into account changes in operations, the market and regulations, as well as related organizational, process and product changes, revolving around an assessment of the risks identified and the results of the audits carried out. This analysis, together with mandatory control provisions set out in the applicable regulations (or requested by the competent bodies) guides the annual planning process;
- execution of controls at different levels (second and third);
- reporting, a formal summary of activities conducted and their results based on the information needs of the various audiences, in particular the corporate boards, taking account of the complexity and depth of the activity conducted and finding a balance between the need for timely information and providing comprehensive information for the decision-making process that utilizes it. Within their area of responsibility, the control bodies report on the completeness, appropriateness, functionality and reliability of the internal control system, notify promptly the corporate boards of any violations or shortcomings they may find, develop specific recommendations for resolving issues with the system and identify solutions for the fine-tuning and corrective or evolutionary maintenance of the framework for assuming and managing risks to be submitted to the appropriate corporate bodies for approval;
- follow-up (monitoring and/or support) of adjustments and or mitigating actions, meaning once the CCFs complete their work by making adjustments or undertaking mitigating actions, monitoring is done to check their actual and effective achievement or support is provided support, as far as it falls within the CCFs' duties, in implementing these measures. In their follow-up activities, the CCFs identify the nature, timing and manner in which the activities are implemented in relation to the significance of the issues that prompted the

corrective and mitigation actions, the complexity and effort – measured in terms of the time and cost necessary – involved in carrying them out and the potential impact of failure to address the issues.

The CCFs share among themselves, while respecting each's prerogatives, all information that can be used to improve the level of efficiency and effectiveness of the activities each undertakes, taking account of the strong interconnections that exists between the different areas monitored.

9. OTHER SIGNIFICANT INFORMATION

The Mutual Banking Group (MBG) Project

With the approval of Law 49/2016 in April 2016, the process of reforming the Italian mutual banking system began, with the definition of a new organizational structure aimed at ensuring greater integration among all of the mutual banks operating in Italy. This integration will allow the mutual banking system to respond effectively to new market environments and the regulatory developments associated with the entry into force of the Banking Union within the European Union.

This reform, therefore, represents a major change, one that will enable the Italian mutual banks to become part of a new and original organizational model, one that unites local culture and European scope. They will remain autonomous, mutual and local banks, but will be integrated within a more cohesive and efficient system. In fact, the reform does not deprive the banks of their identity but rather seeks to preserve the role of the mutual banks as local institutions with a predominantly mutualistic mission, and enable shareholders to participate in the social capital of the mutual banking system.

Under the new organizational model envisaged by the reform, each mutual bank will have to join a Mutual Banking Group as the primary condition for the issue of a banking license. The process of joining the Group is regulated by a specific cohesion contract that will govern the operation of the Group itself. In particular, with the signing of the cohesion contract, the affiliated mutual banks accept the management, coordination and control activities of the Parent Company, without prejudice to the respect for the mutualistic purposes that characterize the mutual banking system. At the same time, the Parent Company will assume the duties and responsibilities in respect of the affiliated banks connected with its role as the entity in charge of the strategic and operational management of the Group and contacts with the supervisory authorities.

A dialogue has been established with the ECB, with the agreement of a schedule of meetings and releases of documentation to be used in making a preliminary assessment of the most important areas to be considered in preparing the application. The Iccrea Group has also begun close consultations with the supervisory authorities, who will be called upon to approve the main contractual elements (articles of association, cohesion agreements, cross-guarantee arrangements). Organizational arrangements are also being revised in order to strengthen internal decision-making mechanisms in line with market best practice.

The first half 2018 was thus characterized by intense preparatory activity for the start-up of the Mutual Banking Group in compliance with the guidelines set out in the reform law, involving all of the mutual banks that will form part of the Group.

Following a challenging project involving the Parent Company and the participating mutual banks, on April 27, 2018 Iccrea Banca submitted to the ECB an application for the establishment of a Mutual Banking Group ("MBG") as envisaged under Article 37-ter of the Consolidated Banking Act, attaching a draft cohesion agreement, draft articles of association of the Parent Company and the model articles of association of the affiliated mutual banks and additional documentation.

On July 24, 2018 the Governing Council of the ECB ruled that the conditions for the establishment of the Mutual Banking Group had been satisfied.

In signing the cohesion agreement, the mutual banks agree to be subject to the management and control of the Parent Company, to which certain powers are attributed to make such control effective, regarding:

- the corporate governance framework of the MBG, including the power of the Parent Company to appoint and remove members of the decision-making bodies of the mutual banks;
- the internal controls and information systems of the MGB;
- the powers granted to the Parent Company for the identification and implementation of strategic guidelines and objectives in order to ensure the effectiveness of the management and control systems at the consolidated level;
- the definition of a framework for the control of and intervention with the affiliated mutual banks;
- compliance with prudential requirements, reporting obligations and other regulatory principles applicable to the Group and affiliated mutual banks;

- the role of the Parent Company in relation to the strategic decisions of the affiliated mutual banks;
- the draft of the cohesion agreement gives the Parent Company the power to issue binding instructions concerning the territorial expansion and the distribution network of the affiliated mutual banks.

On the basis of the documentation submitted, therefore, the supervisory authorities determined that the structure and composition of the MBG meet the requirements established in supervisory instructions and, moreover, that the Group complies with applicable supervisory and prudential requirements in terms of capital adequacy and financial position, taking due consideration of the prudential conditions of the effects of the reciprocal guarantee agreement, which establishes obligations and mechanisms to ensure the availability of funds ex ante and ex post, calculated through a stress test.

In any case, the comprehensive assessment of the MBG's assets will be conducted in the coming months and this will lead to a more precise definition of the Group's capital position. In fact, discussions with the supervisory authorities have brought out the need to subject the new Mutual Banking Groups to a comprehensive assessment that, as in 2014, will be based on an asset quality review and a new stress test. In this regard, the planning activities for the Mutual Banking Group provide for the establishment of joint working groups with the mutual banks to prepare an analysis of the asset quality of the banks.

Furthermore, on July 25, 2018, Decree Law 91 of July 25, 2018, was published in the *Gazzetta Ufficiale*. Article 11 of that decree lays down provisions concerning the extension of deadlines relating to mutual banks and cooperative banking groups.

With this decree, the Government amended the reform of the mutual banking system in order to further strengthen the sector and confirmed the mutualistic purpose of the individual mutual bank both in their respective territories and within the mutual banking groups. In compliance with the general approach of the reform, the provision incorporates the feedback of the mutual banks, focusing, among other things, on territorial and mutual enhancement of the banks and on greater proportionality correlated with the risk of the individual banks, further preserving the independence of the most "virtuous".

In addition, 180 days have been allowed for the conclusion of the cohesion agreement (compared with the 90 days provided for in Article 2 of Decree Law 18 of February 14, 2016, as from the assessment provided for in Article 37-bis, paragraph 2, of Legislative Decree 385 of September 1, 1993.

More specifically, the main amendments introduced by the Decree to Article 37-bis of the Consolidated Banking Act:

- specify that at least 60% of the Parent Company's interest in the Mutual Banking Group shall be held by the mutual banks belonging to the Group in order to strengthen their representation in the Parent Company's share capital, further validating the mutual nature of the Group;
- require that the articles of association of the Parent Company shall provide for a number of members of the administrative body representing the mutual banks belonging to the Group equal to half plus two of the total number of directors, so that the governance of the Parent Company is more representative of the mutual banks;
- establish that the powers of the Parent Company, in addition to considering the Group's mutualistic purposes, shall also consider the local character of the mutual banks, since mutualism expresses itself most effectively in a specified geographical area;
- provide that an "act of the Parent Company" shall be adopted to govern a process of consultation with the participating mutual banks concerning strategies, commercial policies, funding and lending and the pursuit of the Group's mutualistic purpose. The provision also establishes that, in order to take into account the specific features of the areas concerned, consultation shall take place through "territorial assemblies" of the mutual banks, the opinions of which shall not be binding on the Parent Company;
- grant banks in the strongest risk classes greater independence in strategic planning and commercial policies (within the framework of the guidelines issued by the Parent Company and on the basis of the methodologies defined by the latter) and a broader role in the procedures for appointing corporate officers;
- provide for the issue of a Decree of the President of the Council of Ministers, acting upon a proposal of the Minister for the Economy and Finance, having obtained the opinion of the Bank of Italy, establishing the possibility (now provided for with a decree of the Minister for the Economy and Finance, having obtained the

opinion of the Bank of Italy) of setting a different threshold for the interests of the mutual banks in the capital of the Parent Company, taking into account the Group's stability requirements.

Despite the new deadlines, the 2016 reform should be implemented consistently and rapidly. The possibility of making improvements to the rules governing the activities of the mutual banks and their Parent Company should be expressed in the common intent of further strengthening an indispensable component of Italy’s economy and banking system.

In the first half of 2018, the Group recognized €7.2 million in expenses for advisory services to support the implementation of the MBG.

SREP decision

On November 28, 2017, the European Central Bank sent Iccrea Banca SpA its final decision establishing the prudential requirements for 2018 (broken down into requirements for own funds and qualitative requirements).

The decision was is based on the supervisory review and assessment conducted in accordance with Article 4, paragraph 1(f) of Regulation (EU) no. 1024/2013 as at December 31, 2016, taking due account of information received subsequently and the results of the supervisory stress tests conducted in 2016, supplemented by the analysis of sensitivity to interest rate risk in the banking book - stress tests conducted by the ECB in 2017.

In this decision, the ECB requires Iccrea Banca to maintain, on a consolidated basis, a total SREP capital ratio (TSCR) of 9.75% (a slight increase from 9.50% the previous year), including the requirement for own funds under the CRR (8%). In addition, it specified that Iccrea Banca is also subject to the overall capital requirement (OCR), which, in addition to the TSCR, includes the combined capital buffer requirement.

In light of the foregoing, the overall capital requirement (OCR) that the Group must meet is calculated as the sum of the TSCR and the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU. This buffer is equal to 1.875% for 2018. The Group’s OCR for 2018 is therefore 11.625%.

In line with its previous communication, the ECB provides additional factors to be assessed that better qualify the results of its decisions:

- in general the Group has in place efficient, effective and comprehensive strategies and processes for measuring, maintaining and allocating internal capital;
- the amount, type and allocation of internal capital is generally adequate to cover the kind and level of risk to which the Group is or could be exposed.

The SREP decision also requires Iccrea Banca to continue providing additional information on a quarterly basis concerning its non-performing exposures (NPEs) and to present a strategic plan to deal with NPEs and the related semi-annual monitoring.

Corporate transactions and investments

During the first half of 2018 the Parent Company continued to invest in the individual business segments.

More specifically, following the progressive introduction of the new capital conservation buffer requirements and in consideration of the development plan of Iccrea BancaImpresa, with the foreseeable evolution of lending, in March 2018 the Parent Company made a non-interest bearing and non-repeatable payment for a future capital increase of €60 million to the subsidiary. At June 30, 2018, we are waiting for the issue of the authorization for a capital increase of €120 million, funded by the payments on account made in 2017 and the first half of 2018.

Moreover, in a changing market environment characterized by rapid competitive, technological and regulatory developments, and to support the mutual banks in their transformation, innovation and digitization, Iccrea Banca continued to invest in its Ventis subsidiary. The latter is a platform for leveraging the information resources of the Iccrea Banking Group/mutual banks in order to provide turnkey integrated digitization and commercial visibility/promotion services to the SMEs that borrow from the mutual banks.

In line with the Group's strategic plan, in the first half of 2018, Iccrea Banca approved an investment of €5 million in Ventis in order to strengthen the subsidiary and ensure it has the resources it needs to pursue its strategic objectives.

In these circumstances and in the light of the financial and commercial prospects of the company, which underwent an analysis prior to the subscription of the capital increase of the subsidiary, it was decided to postpone to the end of 2018 any impairment testing to verify the carrying amount of the equity investment in the separate financial statements of the Parent company.

Again in the first half of 2018, acting through the direct subsidiary and consistent with the three-year development plan of BCC Lease presented to the Bank of Italy following registration in the Single Register of Financial Intermediaries, in the light of the growth forecasts for that company, the Bank subscribed a capital increase of €5 million in the subsidiary.

Iccrea Banca participated in the capital increase of Satispay, completed in August 2017, with an investment of €3 million, bringing its interest to 15.72% and modifying the related shareholder agreements. The price of the new shares subscribed was €18 million. The valuation of the company after the capital increase amounted to around €66 million. With this transaction, Iccrea Banca has specific rights, including the appointment of a director, continuing to support the company, which offers complementary services to the traditional products offered by Iccrea and the mutual banks.

In order to continue support the growth of Satispay, in July 2018 the subscription of a capital increase in the amount of €2 million was approved.

Acquisition of Banca Mediocredito del Friuli-Venezia Giulia SpA

At the end of December 2017 a framework agreement was signed between the Iccrea Group, the Region of Friuli Venezia Giulia and the Fondazione CR di Trieste for the Iccrea Group to acquire a majority of the shares (51.5%) of MedioCredito Friuli Venezia Giulia (MCFVG), through:

- the subscription by Iccrea BancaImpresa of a reserved capital increase by MCFVG of about €19.7 million. The capital increase was represented by 277,464,780 newly issued shares reserved to Iccrea BancaImpresa, at a price of €0.071 per share, of which €0.03 per share as the share premium;
- the exchange of shares representing the interest of the Foundation in MCFVG (301,389,763 shares equal to 35.6 5% of share capital) with shares of Iccrea Banca (380,000 shares with a par value of €51.65 per share for a total of 1.7051% of share capital). Following the transaction, Iccrea Banca held a stake of 26.838% in Banca Mediocredito del Friuli-Venezia Giulia.

As a result of the direct and indirect interest so acquired, Iccrea Banca now holds a total of 51.546% of the share capital of Banca Mediocredito del Friuli-Venezia Giulia and exercises management and coordination powers over that bank.

In addition, in order to fully implement the business rationale of the project, by December 31, 2018 MCFVG will acquire 100% of the shares of BCC Factoring at their equity value as of the most recently approved annual or half-year financial statements.

IFRS 9

The Iccrea Banking Group has implemented the main provisions and policies to ensure compliance with the new accounting rules concerning financial instruments introduced by IFRS 9.

Paragraph 7.2.21 of IFRS 9, in force since January 1, 2018, allows entities to not apply the new rules on hedge accounting and to continue accounting for hedging transactions in accordance with the provisions of IAS 39 (the "opt-out"). The Iccrea Banking Group has opted to continue, for now, accounting for hedging transactions in accordance with IAS 39.

In accordance with the provisions of IAS 8, IFRS 9 is applied retrospectively. The new requirements must be applied as if they had always been applied to the financial instruments held as at the transition date. It is therefore necessary to provide the supplementary information referred to in paragraphs 42L-42O of IFRS 7, but it is not necessary to restate the previous years. In this case, any differences between the previous carrying amount and the carrying amount at the start of the annual reporting period that includes the date of initial application shall be recognized in a reserve denominated "Opening retained earnings/loss carried forward". Following the amendments introduced with IFRS 9, IFRS 7 requires additional disclosures that permit the reconciliation of balances in IAS 39 financial statements and the opening balance of the financial statements under the new IFRS 9 rules.

At the date of initial application of the standard, the Iccrea Banking Group did not restate figures for previous years. Differences between the previous carrying amount and the opening carrying amount were recognized in the reserve "Opening retained earnings/loss carried forward".

Further details on the project are provided in the notes to the financial statements.

Revision of the investment strategy

During the first half of 2018, in response to changes in market conditions - characterized by considerable uncertainty about medium-term developments in conditions on the financial markets - it was necessary to review the strategies defined in operational planning, with a sharp shift from the financial strategy developed in 2017 and maintaining consistency with the Group's overall capital and profitability profiles.

The new strategy provided for the full disinvestment of Italian government securities in the investment portfolio.

At the same time, in order to support overall profitability, actions were taken to:

- implement the strategic portfolio with an investment in government securities analogous to the portfolio being sold;
- establish a tactical portfolio within the overall portfolio of the Parent Company in order to further support the Group's profitability.

The impact of this strategy on the financial position and performance are discussed more extensively in other sections of this report and in the notes to these interim financial statements.

Resolution Fund contributions (BRRD)

During the first half of 2018, the Iccrea Group received notice of the amount of ordinary contributions to the Single Resolution Fund due for 2018, which were paid by June 1, 2018 in the total amount of €25.3 million (€21 million charged to the Parent Company).

Furthermore, under regulatory provisions governing cases in which the financial resources of the National Resolution Fund are not sufficient to finance resolution interventions being carried out and in relation to the needs of the NRF, during the first half of the year the Fund called up additional contributions to be paid by the entire banking system for the year 2016. In this context, in June 2018 the Iccrea Group paid a total of €9.5 million (€7.9 million charged to the Parent Company) as additional contributions to the Single Resolution Fund.

The total amount of these charges, equal to €34.8 million for all of 2018, was fully recognized in profit or loss for the first half of 2018 in application of applicable accounting rules and consistent with the corresponding period of the previous year.

In relation to the significant amounts paid in the last three years to the Resolution Fund - established with Directive 2014/59/EU (the so-called BRRD), in January 2018 Iccrea Banca filed an appeal with the Lazio Regional Administrative Court and the General Court of the European Union, arguing that the methods for calculating the contributions did not take into account the interconnections in terms of liabilities between Iccrea Banca and the mutual banks, with the consequent double counting of the basis of calculation.

On June 7, 2018 the Lazio Regional Administrative Court referred the matter to the European Court of Justice, suspending the national proceeding until the case is settled before the Court of Justice.

The deadline for submitting observations in the proceedings before the Court of Justice is currently pending.

Assignment of non-performing loans

During the first half of the year, Iccrea Banca coordinated the sale of non-performing loans secured by a state guarantee (the GACS mechanism), which involved 23 mutual banks and two banks of the Iccrea Banking Group, for a total of €1 billion in terms of gross book value. The portfolio assigned by the Iccrea Banking Group amounted to €174 million in terms of gross value and was sold at a price of €45.9 million, with a loss of 1 million euros.

At June 30, 2018, the sale did not give rise to the derecognition of the loan portfolio as the mezzanine and junior securities issued by the securitization vehicle had not been placed with the market by that date and consequently the final effective sale price had not been paid.

Pursuant to IFRS 5, the portfolio involved in the transaction was reclassified as non-current assets held for sale. For the purposes of the correct determination of profit or loss for the period, the value of the portfolio was adjusted to the actual sale price as determined following the placement of the securities on July 10, 2018. This additional writedown was recognized in profit or loss for period.

The effects on capital ratios are presented in another part of this report, to which readers are invited to refer for further details.

In addition, a second transaction in which Iccrea Banca is coordinating the participation of the mutual banks affiliated with the MBG, which will also involve the participation of the banks of the Iccrea Banking Group, was begun. The amounts involved in the operation are not yet quantifiable.

Ratings

With regard to relations with rating agencies, please note the following:

- the last rating assigned by Standard & Poor's was issued on October 31, 2017, when the agency confirmed the medium/long-term debt rating of "BB", with a "stable" outlook;
- as discussed in the annual report, on January 18, 2018, FitchRatings lowered its rating on the medium/long-term debt to "BB+" with a "stable outlook".

Subsequent to June 30, 2018, the Iccrea Group was assigned its first official rating by DBRS. On July 27, 2018, the agency rated the medium/long-term debt at "BBB (low)" with a "negative" outlook.

Main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation (TUF)

The control activities and processes relating to the generation of the information required for the preparation of the financial reports (annual and interim financial statements) are an integral part of the Bank's general control system for managing risks.

While noting that no internal control system can entirely eliminate the risks of error or fraud, but can only measure those risks and lessen the likelihood of occurrence and mitigate the effects, these features seek to provide a reasonable guarantee of the veracity, accuracy, reliability and timeliness of financial reporting.

The control system is based upon two primary guidelines.

- information is entered into the accounting system automatically, semi-automatically and manually by a large number of units within the bank, whose transactions are handled by different subsystems. The line control processes are therefore incorporated either into IT and management procedures for transactions or assigned to specially-formed units. Organizational procedures assign the duties of verifying the accounting records to the heads of the organizational units. Second-level controls are performed by the organizational unit responsible for managing the general accounts and preparing the annual and interim reports. Controls are performed daily, weekly or monthly depending upon the type and frequency of the transactions processed.
- the valuation components that have the greatest impact on the financial statements are delegated to specialized structures. The data relating to the fair value of balance sheet items, in addition to those for hedging relationships and the related effectiveness tests, are supplied by specialized structures equipped with appropriate calculation tools. The data are then re-examined by the Risk Management unit and the Administration unit of the Bank. Data concerning the classification and measurement of non-performing loans are provided by highly specialized, appropriately separated structures that operate on the basis of detailed procedures approved by the Board of Directors.

The interim financial statements undergo a limited audit by Ernst & Young SpA, which also conducted an accounting review pursuant to Art. 14 of Legislative Decree 39/2010.

Regarding the "Transparency Directive", the Bank has chosen Luxembourg as its home Member State, since most of its securities have been issued on that country's exchange. For this reason, given that the relevant legislation does not require it, no Financial Reporting Officer (as provided for in the Consolidated Law on Financial Intermediation) has been appointed.

Transactions with related parties

Iccrea Banca has long conducted its operations in compliance with the principles of transparency and of substantive and procedural propriety in its transactions with related and associated parties, in line with legislative and regulatory provisions and IAS 24.

In order to rationalize the procedures put in place to guard against potential conflicts of interest, in 2016 the Board of Directors of Iccrea Banca had approved – in accordance with the Bank of Italy's instructions on risk activities and conflicts of interests with associated persons for banks and banking groups (Bank of Italy Circular no. 263 of December 27, 2006), Art. 136 of the Consolidated Law on Banking and Art. 2391 of the Italian Civil Code – the new "Policy for handling transactions with related parties and rules on conflicts of interest", available on the Iccrea Banca website.

Accordingly, in the first half of 2018, transactions with related parties were conducted in a manner and following standards in line with those applied in normal banking transactions with bank and corporate customers. Such transactions were undertaken on the basis of their specific financial benefit.

More specifically, the Bank did not engage in any atypical or unusual transactions during the period whose significance or scale might have raised concerns about the integrity of the company's financial position.

In the section "Transactions with related parties" of the explanatory notes, a summary table reports related party transactions. During the period the Group did not engage in or hold any atypical and/or unusual transactions or positions.

Part H – Transactions with related parties in the notes also reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

During the period, the Bank engaged in intercompany transactions that were deemed mutually financially beneficial and arrived at the applicable terms and conditions in accordance with the principles of substantive fairness inherent in the common goal of creating value for the entire Group.

Research and development

The Group did not engage in any research and development in the first half of 2018.

Joint document of the Bank of Italy/Consob/ISVAP no. 2 of June 6, 2009 and no. 4 of March 3, 2010

These financial statements have been prepared in accordance with the general principles established by IAS 1 "Presentation of financial statements". They therefore provide information on the assumption that the company is a going concern, allocating costs and revenues on an accruals basis, avoiding the offsetting of assets and liabilities and costs and revenues.

IAS 1, paragraph 24 requires that all factors and circumstances be considered that may be important in assessing compliance with going concern requirements. Certain indicators may be particularly significant in the current economic environment.

To this end, we have considered the indicators in relation to the Bank and set out in section 8 of Document 570 "Going concern" issued by the Italian accounting profession, listed below:

Financial indicators:

- the entity is not insolvent or have negative net working capital;
- the entity does not have any fixed-term loans close to maturity with no likelihood of renewal or repayment;
- the entity is not excessively dependent on short-term loans to finance long-term activities;
- there are no indications of termination of financial support from lenders and other creditors;
- the entity has no historical or prospective financial statements showing negative cash flows;
- the main economic-financial indicators are not negative;
- there are no substantial operating losses or significant impairment of assets that generate cash flow;
- there has been no lack or interruption of dividends;
- the entity has the ability to repay debt at maturity;
- the entity has the ability to comply with the contractual clauses of loans;
- the entity has experienced a change in the form of payment demanded by suppliers from "on credit" to "payment on delivery";
- the entity has the ability to obtain financing to develop new products or make any further investments it requires.

Management indicators:

- the entity has not lost directors or key managers who cannot be replaced;
- the entity has not lost any fundamental markets, distribution contracts, concessions or key suppliers;

- the entity has not had any difficulties in maintaining staff levels or in obtaining a normal flow of supplies from important suppliers.

Other indicators

- the entity has not experienced a reduction in equity to below legal limits or non-compliance with other provisions of law;
- the entity has no legal and tax disputes under way which, if lost, could give rise to obligations to pay indemnities that the entity would be unable to discharge;
- there have not been any changes in legislation or government policy that could have an adverse impact on the entity.

The Bank therefore feels that it can reasonably expect to continue operating in the future. The directors have carefully assessed this aspect and therefore believe that they can confirm that the Bank is a going concern on the basis of the reasons given in the report on operations – the targets and policies for the assumption, management and hedging of risks.

Treasury shares bought and sold during the period

At December 31, 2017 treasury shares numbered 584,222 with a par value of €51.65, repurchased for €52.80, with a total value of €30,846,921.66, against which a specific reserve (purchase of treasury shares) has been established. During the first half of the year, 115,955 shares with a value of €6,122,424 were sold. At June 30, 2018, treasury shares numbered 468,267 with a par value of €51.65, repurchased for €52.80, with a total value of €24,724,498.

10. SUBSEQUENT EVENTS AND OUTLOOK

The main events that characterized the beginning of the second half of the year are reported below:

- on July 11, 2018 the acquisition of control of Banca Mediocredito Friuli-Venezia Giulia SpA, discussed in the previous section in "other significant information" (please see for more information), closed;
- on July 19, 2018 the subscription of a capital increase of €2 million in Satispay was approved and on August 2, 2018, payment was made on the subscription of 71,890 class "I" shares, issued at a price of €27.82 per share, of which €0.14 of par value and €27.67 of share premium;
- on July 18, 2018 the disposal of our investment in Assietta Private Equity SGR to Assietta SpA was formalized at a price of €147 thousand;
- on July 27, 2018 the DBRS rating agency assigned its first official rating on Iccrea Group medium/long-term debt, setting it at "BBB (low)", with a negative outlook;
- at the end of July 2018, Italfondiario SpA's interest in BCC Gestione Crediti, equal to 45% of the share capital, was acquired for €2.2 million, leaving Iccrea Banca as the sole shareholder;
- on August 2, 2018, the Board of Directors of Iccrea BancaImpresa authorized the subscription of a capital increase of €1.7 million in Car Server.

Looking forward, in February 2018 the 2018-2020 business plan of the Iccrea Banking Group was approved. Pending approval of the Mutual Banking Group project, it is based on the following lines of development:

- focus the Parent Company and the Group companies on completing the activities necessary for the formation of the new Mutual Banking Group;
- development of the actions envisaged in the NPL plan (restructuring of unlikely-to-pay positions, liquidations, settlements, etc.) and disposals of non-performing loans;
- identification of incisive actions to offset the possible contraction in volumes linked to the mutual banks belonging to the CCB Group of Trento.

The 2018 budget includes the administrative costs necessary for the initial changes to strengthen the Parent Company's structures in the approach to creation of the Mutual Banking Group, while existing relations between participating mutual banks and the federations are being assessed.
At present, the transformation into law of the Decree Law of July 25, 2018 concerning mutual banking groups, which is expected to occur by the end of September this year, will have a significant impact.

The ratification into law and any amendments introduced with the transformation will make it possible to specify the effective timing of the changes and consequent start-up of the Mutual Banking Group. In any event, implementation of the project is currently proceeding.

Rome, August 3, 2018

THE BOARD OF DIRECTORS

FINANCIAL STATEMENTS

June 30, 2018

BALANCE SHEET

No. of new item 262 [No. of item 31/12/2017]	ASSETS	30/06/2018	31/12/2017
10.	Cash and cash equivalents	73,340,904	98,307,123
[20.]	Financial assets held for trading		316,785,483
[30.]	Financial assets measured at fair value		15,630,450
[40.]	Financial assets available for sale		3,498,964,842
[50.]	Financial assets held for trading		0
[60.]	Due from banks		24,560,756,495
[70.]	Loans to customers		5,985,237,479
20.	Financial assets measured at fair value through profit or loss	1,135,924,244	
	a) financial assets held for trading	*581,258,325*	
	b) financial assets designated at fair value		
	c) other financial assets mandatorily measured at fair value	*554,665,919*	
30.	Financial assets measured at fair value through other comprehensive income	330,596,369	
40.	Financial assets measured at amortized cost	39,802,387,576	
	a) due from banks	*24,591,325,683*	
	b) loans to customers	*15,211,061,893*	
50.	Hedging derivatives	6,571,818	6,715,965
60.	Value adjustments of financial assets hedged generically (+/-)	(287,889)	4,622
70.	Equity investments	1,256,298,077	1,193,546,842
80.	Property and equipment	12,285,619	14,430,380
90.	Intangible assets	10,239,469	11,126,402
	of which:		
	- goodwill		
100.	Tax assets	68,686,246	67,088,858
	a) current	*42,784,191*	*42,466,387*
	b) deferred	*25,902,055*	*24,622,471*
110.	Non-current assets and disposal groups held for sale		
120.	Other assets	183,570,266	249,519,497
	Total assets	**42,879,612,699**	**36,018,114,437**

BALANCE SHEET

No. of new item 262 [No. of item 31/12/2017]	LIABILITIES AND SHAREHOLDERS' EQUITY	30/06/2018	31/12/2017
[10.]	Due to banks		19,401,519,522
[20.]	Due to customers		8,243,380,096
[30.]	Securities issued		5,874,244,702
[40.]	Financial liabilities held for trading		365,383,905
10.	Financial liabilities measured at amortized cost	40,452,961,508	
	a) due to banks	*19,528,277,584*	
	b) due to customers	*15,811,088,358*	
	c) securities issued	*5,113,595,566*	
20.	Financial liabilities held for trading	524,947,384	
40.	Hedging derivatives	77,652,067	48,028,289
60.	Tax liabilities	-	2,772,768
	b) deferred	-	*2,772,768*
80.	Other liabilities	280,562,177	466,596,078
90.	Employee termination benefits	10,816,916	11,312,466
100.	Provisions for risks and charges:	10,307,099	7,152,344
	a) commitments and guarantees granted	*109,980*	-
	c) other provisions for risks and charges	*10,197,119*	*7,152,344*
110.	Valuation reserves	35,205,640	66,833,949
140.	Reserves	415,590,825	401,193,923
150.	Share premium reserve	4,746,737	4,746,737
160.	Share capital	1,151,045,404	1,151,045,404
170.	Treasury shares (-)	(24,724,498)	(30,846,922)
180.	Net profit (loss) for the period (+/-)	(59,498,560)	4,751,176
	Total liabilities and shareholders'' equity	**42,879,612,699**	**36,018,114,437**

INCOME STATEMENT

No. of new item 262 [No. of item 31/12/2017]		30/06/2018	30/06/2017
10.	Interest and similar income	135,665,849	99,596,768
	of which: interest income calculated using effective interest rate method	-	-
20.	Interest and similar expense	(109,595,419)	(85,918,443)
30.	Net interest income	26,070,430	13,678,325
40.	Fee and commission income	205,253,419	178,727,979
50.	Fee and commission expense	(129,603,331)	(115,438,162)
60.	Net fee and commission income (expense)	75,650,088	63,289,817
70.	Dividends and similar income	41,615,270	25,065,202
80.	Net gain (loss) on trading activities	5,824,145	8,637,006
90.	Net gain (loss) on hedging activities	(2,815,254)	(379,008)
[100.]	Net gain (loss) on the disposal or repurchase of:		24,779,682
	a) loans		8,414
	b) financial assets available for sale		25,832,159
	d) financial liabilities		(1,060,891)
100.	Net gain (loss) on the disposal or repurchase of:	(48,676,774)	
	a) financial assets measured at amortized cost	16,895,457	
	b) financial assets measured at fair value through other comprehensive income	(63,404,107)	
	c) financial liabilities	(2,168,124)	
[110.]	Net gain (loss) on financial assets and liabilities designated as at fair value		581,175
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(6,707,742)	
	a) financial assets and liabilities designated at fair value		
	b) other financial assets mandatorily measured at fair value	(6,707,742)	
120.	Gross income	90,960,163	135,652,199
[130.]	Net losses/recoveries on impairment:		(30,956,414)
	a) loans		951,515
	b) financial assets available for sale		(31,722,078)
	d) other financial transactions		(185,851)
130.	Net losses/recoveries for credit risk in respect of:	(6,001,015)	
	a) financial assets measured at amortized cost	(5,840,304)	
	b) financial assets measured at al fair value through other comprehensive income	(160,711)	
150.	Net income (loss) from financial operations	84,959,148	104,695,785
160.	Administrative expenses:	(161,513,120)	(126,508,277)
	a) personnel expenses	(42,258,808)	(38,839,962)
	b) other administrative expenses	(119,254,312)	(87,668,315)
170.	Net provisions for risks and charges	682,040	(214,016)
	a) commitments and guarantees granted	14,798	
	b) net provisions for other risk and charges	667,242	
180.	Net adjustments of property and equipment	(2,144,109)	(1,443,367)
190.	Net adjustments of intangible assets	(1,218,854)	(2,351,337)
200.	Other operating expenses/income	14,286,316	13,015,884
210.	Operating expenses	(149,907,727)	(117,501,113)
220.	Profit (loss) from equity investments	-	(223,322)
260.	Profit (loss) before tax on continuing operations	(64,948,579)	(13,028,650)
270.	Income tax expense from continuing operations	5,450,019	14,107,093
280.	Profit (loss) on continuing operations after tax	(59,498,560)	1,078,443
300.	Profit (loss) for the period	**(59,498,560)**	**1,078,443**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2018	30/06/2017
10.	**Net profit (loss) for the period**	(59,498,560)	1,078,433
	Other comprehensive income net of taxes not recyclable to profit or loss		
20.	Equity securities designated as at fair value through other comprehensive income	(6,617,483)	-
70.	Defined benefit plans	148,069	219,033
	Other comprehensive income net of taxes recyclable to profit or loss		
[100.]	Financial assets available for sale		(6,535,628)
120.	Cash flow hedges	229,166	-
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(11,844,068)	-
170.	**Total other comprehensive income net of taxes**	(18,084,316)	(5,882,159)
180.	**Comprehensive income (item 10+170)**	**(77,582,876)**	**(4,803,716)**

STATEMENT OF CHANGES IN EQUITY 2018

				ALLOCATION OF NET PROFIT OF PREVIOUS DIVIDEND		CHANGE IN THE PERIOD								
							EQUITY TRANSACTIONS							
	AS AT 31/12/2017	CHANGE IN OPENING BALANCE	AS AT 1/1/2018	RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME 30.6.2018	SHAREHOLDERS' EQUITY AS AT 30.6.2018
Share capital:														
a) ordinary shares	1,151,045,404	-	1,151,045,404	-			-	-						1,151,045,404
b) other shares	-	-	-	-			-	-						-
Share premium reserve	4,746,737	-	4,746,737	-			-							4,746,737
Reserves:														
a) earnings	399,191,559	9,921,784	409,113,343	4,475,118		-	-	-	-					413,588,461
b) other	2,002,364	-	2,002,364	-		-	-		-		-	-		2,002,364
Valuation reserves	66,833,949	(13,543,993)	53,289,956			-							**(18,084,316)**	35,205,640
Equity instruments	-	-	-											-
Treasury shares	(30,846,922)	-	(30,846,922)				6,122,424							(24,724,498)
Net profit (loss) for the period	**4,751,176**	**-**	**4,751,176**	**(4,475,118)**	**(276,059)**								**(59,498,560)**	**(59,498,560)**
Total shareholders' equity	**1,597,724,267**	**(3,622,209)**	**1,594,102,058**		**(276,059)**	**-**	**6,122,424**	**-**	**-**	**-**	**-**	**-**	**(77,582,876)**	**1,522,365,547**

"Changes in opening balance" includes the effects of the reclassification and remeasurement of financial assets and liabilities as a result of initial application of IFRS 9.

The sub-item "Reserves - other" reports the goodwill in the transfer of the Corporate business area (2007), the merger of BCC Multimedia, the transfer of properties to BCC Beni Immobili s.r.l. and the transfer of the "branch services" business unit to Banca Sviluppo.

STATEMENT OF CHANGES IN EQUITY 2017

				ALLOCATION OF NET PROFIT OF PREVIOUS DIVIDEND		CHANGE IN THE PERIOD								
							EQUITY TRANSACTIONS							
	AS AT 31/12/2016	CHANGE IN OPENING BALANCE	AS AT 1/1/2017	RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME 30.6.2017	SHAREHOLDERS' EQUITY AS AT 30.6.2017
Share capital:														
a) ordinary shares	1,151,045,404	-	1,151,045,404	-	-	-	-	-	--	-	-	-	-	1,151,045,404
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	4,746,737	-	4,746,737	-	-	-	-	-	-	-	-	-	-	4,746,737
Reserves:		-			-	-	-	-	-	-	-	-	-	-
a) earnings	389,783,141	-	389,783,141	9,408,418	-	-	-	-	-	-	-	-		399,191,559
b) other	2,002,364	-	2,002,364	-	-	-	-	-	-	-	-	-	-	2,002,364
Valuation reserves	67,248,992	-	67,248,992	-	-	-	-	-	-	--	-	-	(415,043)	66,833,949
Equity instruments	-	-	-	-	-	-	--	-	-	-	-	-	-	-
Treasury shares	(30,067,699)	-	(30,067,699)	-	-	-	-	(779,223)	-	-	-	-	-	(30,846,922)
Net profit (loss) for the period	21,084,184	-	21,084,184	(9,408,418)	(11,675,766)		-	-		-	-	-	4,751,176	4,751,176
Total shareholders' equity	**1,605,843,123**	**-**	**1,605,843,123**	**-**	**(11,675,766)**		**-**	**(779,223)**	**-**		**-**	**-**	**4,336,133**	**1,597,724,267**

The sub-item "Reserves - other" reports the goodwill in the transfer of the Corporate business area (2007), the payment by the then Parent Company Iccrea Holding on capital account, the merger of BCC Multimedia, the transfer of properties to BCC Beni Immobili s.r.l. and the transfer of the "branch services" business unit to Banca Sviluppo.

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2018
A. OPERATING ACTIVITIES	
1. Operations	**(168,617,556)**
- net profit (loss) for the period (+/-)	(59,498,560)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(9,662,367)
- gains (losses) on hedging activities (-/+)	2,815,254
- net losses/recoveries on impairment (+/-)	6,012,734
- net adjustments of property and equipment and intangible assets(+/-)	3,362,833
- net provisions for risks and charges and other costs/revenues (+/-)	3,595,329
- taxes, duties and tax credits to be settled (+/-)	(5,475,259)
- other adjustments (+/-)	(109,767,519)
2. Net cash flows from/used in financial assets	**(6,792,402,853)**
- financial assets held for trading	16,639,345
- financial assets designated as at fair value	(270,985,971)
- other assets mandatorily measured at fair value	5,176,931
- financial assets measured at fair value through other comprehensive income	2,488,911,173
- financial assets measured at amortized cost	(9,079,507,381)
- other assets	47,363,050
3. Net cash flows from/used in financial liabilities	**6,952,946,950**
- financial liabilities measured at amortized cost	6,931,817,309
- financial liabilities held for trading	159,552,048
- financial liabilities designated as at fair value	0
- other liabilities	(138,422,408)
Net cash flow from/used in operating activities (A)	**(8,073,459)**
B. INVESTING ACTIVITIES	
1. Cash flows from	**40,343,946**
- sales of equity investments	-
- dividends on equity investments	40,343,946
- sales of property and equipment	-
- sales of intangible assets	-
- sales of business units	-
2. Cash flows used in	**(63,082,998)**
- purchases of equity investments	(62,751,077)
- purchases of property and equipment	0
- purchases of intangible assets	(331,921)
- purchases of business units	-
Net cash flows from/used in investing activities (B)	**(22,739,052)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	6,122,502
- issues/purchases of equity instruments	4,474,966
- dividend distribution and other	(4,751,176)
Net cash flows from/used in financing activities C (+/-)	**5,846,292**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(24,966,219)**

RECONCILIATION

	30/06/2018
Cash and cash equivalents at beginning of period (E)	98,307,123
Net increase/decrease in cash and cash equivalents (D)	(24,966,219)
Cash and cash equivalents: effect of exchange rate changes (F)	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	73,340,904

The statement of cash flows at December 31, 2017 is reported below for comparative purposes.

	31/12/2017
A. OPERATING ACTIVITIES	
1. Operations	**47,165,299**
- net profit (loss) for the period (+/-)	4,751,176
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	9,495,237
- gains (losses) on hedging activities (-/+)	1,395,013
- net losses/recoveries on impairment (+/-)	50,628,392
- net adjustments of property and equipment and intangible assets(+/-)	8,960,412
- net provisions for risks and charges and other costs/revenues (+/-)	5,001,950
- taxes, duties and tax credits to be settled (+/-)	(9,153,833)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-
- other adjustments (+/-)	(23,913,048)
2. Net cash flows from/used in financial assets	**6,825,262,703**
- financial assets held for trading	92,970,611
- financial assets at fair value through profit or loss	-
- financial assets available for sale	2,156,191,675
- due from banks: repayable on demand	(846,344,879)
- due from banks: other	7,282,932,715
- loans to customers	(1,811,523,896)
- other assets	(48,963,525)
3. Net cash flows from/used in financial liabilities	**(8,368,858,935)**
- due to banks: repayable on demand	(63,699,980)
- due to banks: other	6,200,120,616
- due to customers	(16,199,083,435)
- securities issued	1,661,834,519
- financial liabilities held for trading	(56,656,251)
- financial liabilities at fair value through profit or loss	-
- other liabilities	88,625,596
Net cash flows from/used in operating activities (A)	**(1,496,430,934)**
B. INVESTING ACTIVITIES	
1. Cash flows from	**860,507,759**
- sales of equity investments	-
- dividends on equity investments	23,189,759
- sales of financial assets held to maturity	837,318,000
- sales of property and equipment	-
- sales of intangible assets	-
- sales of subsidiaries and business units	-
2. Cash flows used in	**648,261,336**
- purchases of equity investments	(56,666,685)
- purchases of financial assets held to maturity	721,195,880
- purchases of property and equipment	(5,692,137)
- purchases of intangible assets	(10,575,722)
- purchases of business units	-
Net cash flows from/used in investing activities (B)	**1,508,769,095**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	(779,223)
- issues/purchases of capital instruments	-
- dividend distribution and other	(11,675,766)
Net cash flows from/used in financing activities C(+/-)	**(12,454,989)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(116,827)**

RECONCILIATION

	31/12/2017
Cash and cash equivalents at beginning of period (E)	98,423,950
Net increase/decrease in cash and cash equivalents (D)	(116,827)
Cash and cash equivalents: effect of exchange rate changes (F)	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	98,307,123

NOTES TO THE FINANCIAL STATEMENTS

PART A – Accounting policies

A.1 –GENERAL INFORMATION

Section 1 – Declaration of conformity with the International Accounting Standards (IAS/IFRS)

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, these interim financial statements of Iccrea Banca have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended. These interim financial statements are compliant with the provisions of IAS 34 and have been prepared in accordance with Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 5th update of December 22, 2017 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements. The IASs/IFRSs applied in preparing the financial statements were those in force at June 30, 2018, as endorsed by the European Commission (including the interpretations issued by the IFRIC). With regard to the comparative data for the previous year, taking account of the fact that IFRS 9 provides for the possibility, at the time of first application, of not restating figures for the previous financial years, Iccrea Banca presents comparative data by reporting the items given in the schedules of the 4th update of Circular no. 262 of December 22, 2005. Please see to the financial statements for the year ended December 31, 2017 for details on the accounting standards adopted and in force until that date.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2018:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	**IFRS 15 Revenue from contracts with customers.** The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018.
2067/2016	**IFRS 9 Financial instruments** The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018.
1988/2017	**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** The amendments of IFRS 4 seek to remedy the temporary accounting effects of the mismatch between the effective date of IFRS 9 and the effective date of the new IFRS 17 on insurance contracts, which replaces IFRS 4.	Annual reporting periods beginning on or after January 1, 2018.
182/2018	**Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IAS 28 and IFRS 1**	Annual reporting periods beginning on or after January 1, 2018.

	The amendments regarded the elimination of the short-term exemptions envisaged for First-Time Adoption of IFRS1, and the classification and measurement of equity investments measured at fair value through profit or loss in accordance with IAS 28 – Investments in associates and joint ventures.	
289/2018	**Amendments to IFRS 2 Share-based payment** The amendments are intended to clarify the accounting treatment for certain types of share-based payment schemes.	Annual reporting periods beginning on or after January 1, 2018.
400/2018	**Amendments to IAS 40 Investment property – Transfers of investment property** The amendments clarify when an entity may modify the classification of a property when it was not held as "investment property" and vice-versa.	Annual reporting periods beginning on or after January 1, 2018.
519/2018	**IFRIC 22 – Foreign currency transactions and advance consideration** The interpretation clarifies the accounting treatment for transactions that involve the receipt or payment of advance consideration in a foreign currency.	Annual reporting periods beginning on or after January 1, 2018.

The following table reports new international accounting standards and amendments to existing standards issued by the IASB that have not yet entered force:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	**IFRS 16 Leases** The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.
498/2018	**Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation** The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.
To be determined	**IFRIC 23 – Accounting for uncertainties in income taxes** The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to IAS28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to IAS 19** The amendments specifies how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020

Compliance with IFRS 9

INTRODUCTION

1 IFRS 9 – REGULATORY FRAMEWORK

IFRS 9 – Financial Instruments, issued by the International Accounting Standards Board (IASB) in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, is the new accounting standard replacing IAS 39 as from January 1, 2018, with an impact on the classification and measurement of financial instruments and the rationale and procedures for calculating impairment losses.

2 THE THREE PILLARS OF IFRS 9

The entry into force of IFRS 9 brought changes, which can be summarized in the following three main areas:

- classification and measurement - the standard introduces new accounting classifications depending on the business models and the financial characteristics of cash flows (so-called SPPI - Solely Payments of Principal and Interests);
- impairment - the standard introduces a new expected credit loss approach (ECL) to replace the incurred loss approach envisaged under IAS 39, providing for the adoption of a single model encompassing all financial assets except those measured at the fair value through profit or loss (FVTPL);
- hedge accounting - the standard introduces changes in the area of micro hedging, bringing hedge accounting into a risk management perspective, while macro hedging does not currently fall within the scope of IFRS 9.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

With regard to “classification and measurement” aspects issues, IFRS 9 establishes three measurement criteria for financial assets:

- amortized cost (hereinafter also "AC");
- fair value through other comprehensive income (hereinafter also “FVTOCI”);
- fair value through profit or loss (hereinafter also “FVTPL”).

For financial assets represented by debt securities, the determination of the measurement criterion is depends both on the business model of the portfolio to which it belongs and to the characteristics of the contractual cash flows of the financial instrument.

Equity instruments are classified in the FVTPL category, with the exception of the irrevocable option to classify equity instruments not held for trading in the FVTOCI category. In this case only dividends are recognized in profit or loss, while changes from measurement and gains or losses on disposal are recognized in other comprehensive income.

IMPAIRMENT

With reference to impairment, the standard introduces a single model, based on the concept of expected loss extended to on- and off-balance-sheet assets that are not measured at FVTPL. IFRS 9 establishes that at each reporting date the loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The verification of the presence of a significant increase in credit risk is based on a stage allocation process which provides for the classification of financial assets into three stages, applying the calculation of the 12-month expected credit loss to stage 1; and the lifetime expected credit loss on the instrument to stages 2 and 3.

HEDGE ACCOUNTING

With reference to “hedge accounting”, the standard revises the rules for the designation of a hedging relationship and for verifying its effectiveness in order to ensure greater alignment between the accounting representation of the

hedges and the underlying management rationale, confirming the adoption of a more risk-management oriented approach. It is emphasized that the regulatory changes only concern "general hedge accounting", for which the standard provides for the possibility of applying the rules set by the new standard rather than continuing to apply IAS 39 (the "Opt-in/Opt-out" option). The standard does not address macro-hedging, which continues to be governed by IAS 39.

3 DIFFERENCES WITH IAS 39

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The classifications of financial instruments under IAS 39 have been replaced by the following IFRS 9 categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. In order to determine the classification of debt instruments, two new concepts are introduced: the business model, to assess the purpose for which the financial instruments are held, and the SPPI test, to determine the contractual characteristics of the cash flows associated with the financial instruments.

For the purposes of these assessments, steps have been taken to identify the business model of the financial assets held by Iccrea Banca and to determine the procedures for conducting the SPPI test on the basis of the characteristics of the contractual cash flows.

IMPAIRMENT

The main changes introduced with IFRS 9 concerning impairment include:

- a change from the incurred loss model to an expected loss model;
- the recognition of a significant increase in credit risk, with the consequent measurement of the lifetime expected credit loss (stage 2) in place of a 12-month expected credit loss (stage 1), in the presence of a significant increase in credit risk since the origination of an asset;
- the introduction of probability-weighted outcomes in the transfer of impaired assets (stage 3);
- the inclusion of forward-looking information, comprising multiple economic scenarios, within the new impairment model.

4 EXEMPTIONS AND OPTIONS APPLIED AT FIRST-TIME ADOPTION

HEDGE ACCOUNTING

Iccrea Banca decided not to opt for early application of IFRS 9. In addition, with regard to the new provisions concerning hedge accounting, as allowed by the standard (IFRS 9 7.2.21), Iccrea Banca exercised the option to continue to apply the provisions of IAS 39 governing accounting for hedging transactions.

COMPARATIVE STATEMENTS

In initial application, IFRS 9 does not require the restatement of comparative figures, on a uniform basis, for prior periods. In this regard, at the time of the issue of the 5th amendment of Bank of Italy Circular no. 262/2005 governing the format and rules for the preparation of bank financial statements, the supervisory authorities have specified that banks that do not produce comparative figures must include, in the first financial statements prepared on the basis of the aforementioned update, a reconciliation statement that indicates the method used and provides a reconciliation of the data reported in the most recent approved financial statements and the first financial statements drawn up on the basis of the new provisions. The form and content of this table may be decided by the competent corporate bodies.

Iccrea Banca has elected to exercise the option available under paragraph 7.2.15 of IFRS 9 to not restate the comparative figures in the first financial statements prepared in accordance with IFRS 9. With regard to the comparative data, the section “Reconciliation statements” reports the differences between the 4th update of Circular no. 262/2005 and the 5th update. In the same section, tables 4.3 and 4.5 report the reconciliations of the balances at January 1, 2018, following the application of the new measurement and impairment rules under IFRS 9.

IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS

With Regulation (EU) 2017/2395 regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, issued on December 12, 2017, the European Parliament and the Council amended Regulation 575/2013 (the CRR), inserting the new Article 473a “Introduction of IFRS 9”, which permits banks to attenuate the impact of the introduction of IFRS 9 on their own funds associated with an increase in provisions for expected credit losses by including a portion of the provisions in CET1 capital over a transitional period of 5 years (from March 2018 to December 2022), sterilizing the impact on CET1 by a decreasing percentage over time.

Iccrea Banca has elected to adopt the so-called dynamic approach and static approach to the impact resulting from the comparison between the IAS 39 provisions at December 31, 2017 and those calculated under IFRS 9 at January 1, 2018, which provide for the application of decreasing factors to the provisions for exposures classified in stage 1 and stage 2 (dynamic approach) and to stage 3 (static approach).

Over the first five years of application of IFRS 9, the transitional arrangements gradually reduce the impact on CET1 by applying the following factors:

1. 0.95 between January and December 2018;
2. 0.85 between January and December 2019;
3. 0.7 between January and December 2020;
4. 0.5 between January and December 2021;
5. 0.25 between January and December 2022.

As indicated in the guidelines issued by the EBA in January 2018, entities that opt for the transitional arrangements shall provide the market, among other things, with information on a “fully loaded basis” (see disclosure below).

5 THE IFRS 9 IMPLEMENTATION PROJECT ADOPTED BY THE ICCREA BANKING GROUP

The Iccrea Banking Group began work for the adoption of the new IFRS 9 in September 2016, following a preliminary assessment carried out in 2014 aimed at obtaining an initial estimate of the potential impact of its introduction.

Given the importance of the project and the impact of the changes introduced by the new standard, the activities were governed by a Steering Committee composed of members of top management. The project was structured into three macro-areas mirroring the three areas into which the standard is organized, namely classification and measurement, impairment and hedge accounting. For each project area, an operational manager was appointed.

Since the standard has a considerable impact and impacts many aspects of corporate operations, a large number of the Group's units have been actively involved in the project: the areas most affected by the implementation of the new standard were Administration, Risk Management, Lending, Finance, Organization and Projects, IT, ALM and Consulting and Planning and Management Control. Together with the operational units, internal control functions such as Internal Audit and the Board of Auditors were also part of the project.

The IFRS 9 project was programmed an extended period of time and was divided into broadly sequential macro-phases, namely:

- an initial stage of assessment and definition of preliminary choices;
- a subsequent design and construct stage with analysis of project implementation solutions, determination of preferred choices and the design of the operating models;
- a third phase of development, implementation and testing of the procedures and applications adopted, at ensuring the adjustment and consolidation of internal rules within the Group.

With regard to the "classification and measurement" project, in the assessment phase detailed analyses were conducted of the Group's loans and securities portfolios, the functional requirements for the SPPI test were analyzed in order to illustrate the underlying assumptions and provide support for the associated decisions and the main organizational impacts were determined.

In the design and construct phase, following through on the previous phase, the business models were defined for each Group company, the analysis of the operating scenarios was developed to identify the main organizational, process and technological impacts necessary to start the implementation construction phase. The project results were developed into specific policy documents and processes to govern the transition to the new standard. During the implementation phase, all necessary measures were deployed and policies and internal process adjustments were refined and subsequently incorporated in the Group's internal rules in order to ensure compliance with the standard.

With regard to the "impairment" project, during the assessment phase the analysis of the systems used to measure the risk parameters for the calculation of the provisions and the mapping of the regulatory requirements was carried out. In the design and construct phase, activities focused methodological and organizational design for the transition, Mores specifically, on the methodological front the solutions for calculating impairment were developed on the basis of the specific characteristics of each Group company, with particular reference to stage allocation and estimation of risk parameters, while on the technological front, application solutions were developed to enable the implementation of the methodological and functional inputs developed within the project and to calculated the necessary provisions in compliance with the standard and in accordance with the operational arrangements for implementing the standard by the Group. The project results were developed into specific policy documents and processes to govern the transition to the new standard. During the implementation phase, all necessary measures were deployed and policies and internal process adjustments were refined and subsequently incorporated in the Group's internal rules in order to ensure compliance with the standard.

With regard to the "hedge accounting" project, the Group conducted an impact analysis of the requirements of IFRS 9, analyzing the Group's existing hedging relationships and the effectiveness testing service provided to participating mutual banks, assessing the pros and cons of adopting the general hedge accounting model of IFRS 9. In the light of the findings of the assessment, the Iccrea Banking Group decided to postpone adoption of the new IFRS 9 hedge accounting model to after January 1, 2018. Accordingly, this component had no impacts.

With reference to information systems, activities were conducted to identify the main impact areas, performing gap analysis and identifying all the necessary changes to be made and identifying the applications and procedures to

upgrade. More specifically, with regard to the implementation of IT systems, the new software applications for managing the new classification and measurement processes connected with the business model and the SPPI test were integrated, together with the tools and applications needed to calculate expected loss and the inclusion of forward-looking factors in the calculation of impairment. With specific regard to the SPPI test, the procedures for performing the test were identified as were the platforms for applying the SPPI method adopted by the Group for both debt securities and credit exposures proper. In the area of estimating ECL, the implementation activities for estimating expected loss through the adoption of solutions and applications managed by leading system operators were completed.

In 2017 the Group underwent the thematic analysis conducted by the Single Supervisory Mechanism (SSM) of credit institutions (the “thematic review”), in order to assess the state of preparation for the application of IFRS 9. As part of this effort, the Group provided documentation and analysis supporting the Group’s assessment of the IFRS 9 project areas. All progress made on the project, together with initial impact analyses, were discussed with the European Central Bank during the project. These activities will continue in 2018.

6 OVERVIEW OF IMPACTS

OVERVIEW

(i) **Shareholders' equity**: the adoption of IFRS 9 reduced shareholders' equity at January 1, 2018 by €3.622 million (gross of tax effects). This included:

- an increase of €0.298 million from the new **classification and measurement** requirements for financial assets;
- a decrease of €4.734 million from the application of the new ECL **impairment** method;
- an increase of 0.814 million from the increase in the FVTOCI reserve as a result of the application of the new ECL **impairment** method for that category of financial instrument, with a corresponding negative impact on earnings reserves (FTA reserve);

(ii) **CET1**. This included:

- the impact of **fair value classification and measurement** and the new **impairment** method provided for by IFRS 9, which reduced the CET1 ratio by 7 basis points to 37.83% at January 1, 2018. This result was fully loaded and gross of tax effects;

(iii) **TCR.** This included:

- the impact of **fair value classification and measurement** and the new **impairment** method provided for by IFRS 9, which reduced the TCR by 0.06 basis points to 41.10% at January 1, 2018. This result was fully loaded and gross of tax effects.

CHANGE IN IMPAIRMENT LOSS IN SHIFT FROM IAS 39/IAS 37 TO IFRS 9

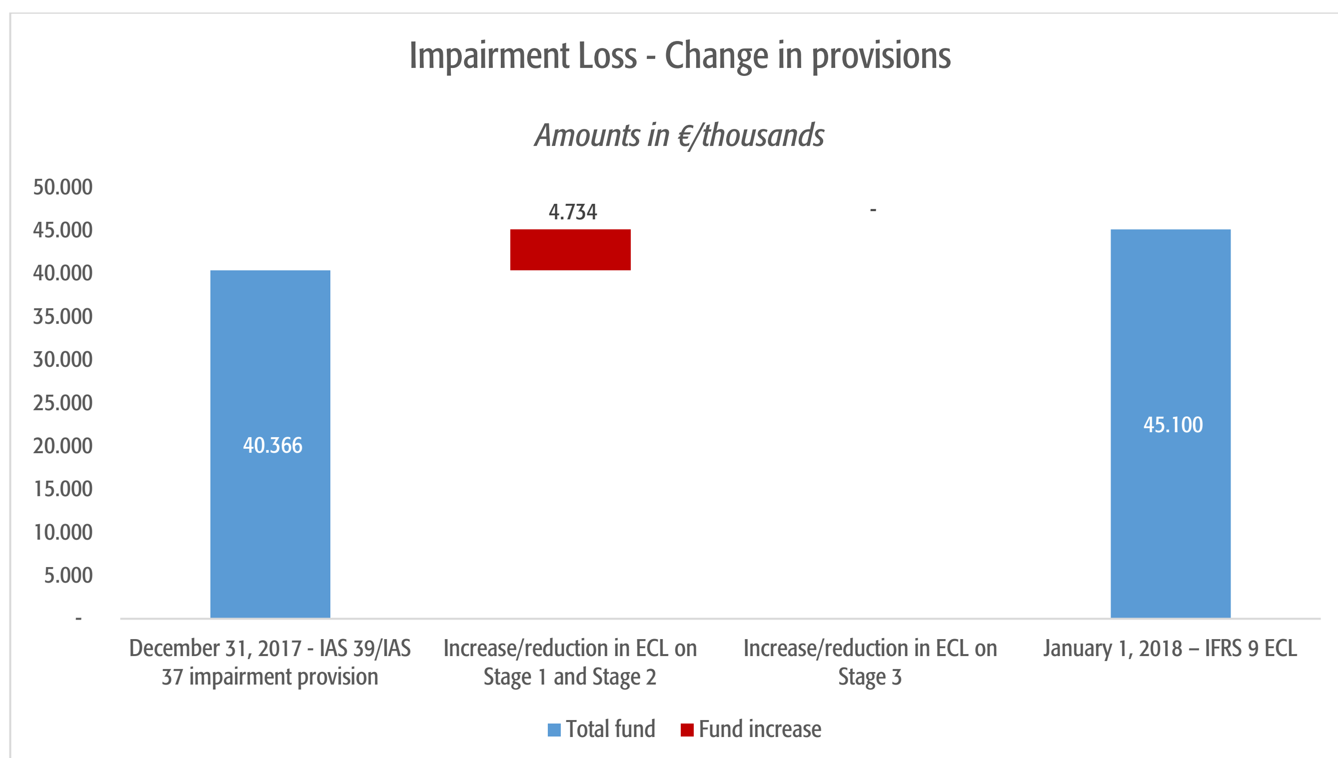
In order to highlight the impact of the new impairment method on the impairment provision in accordance with IAS 39 and IAS 37, the following table and the accompanying chart show the increase in the impairment provision (loss allowance) reconciling the balance under IAS 39 (equal to €40,366,000) with the balance under IFRS 9 (€45,100,000), with the specification of changes in the loss allowance by credit risk stage.

Considering that performing positions at December 31, 2017 were entirely migrated to the new risk stages 1 and 2, the item "Increase/decrease in ECL on Stage 1 and 2" is reported as the difference between the "Collective impairment provision" for performing financial assets as at December 31. 2017 and the ECL on stage 1 and 2 positions as at January 1, 2018.

No amount is reported in the item "Increase/decrease in ECL on Stage 3" since no transactions involving the assignment of NPLs are envisaged for Iccrea Banca, transactions that, if carried out, could have impacted the valuation of stage 3 loans in "sales scenarios" previously not considered for accounting purposes under IAS 39.

Table 1.1

(€/thousands)	Total
31/12/2017 - IAS 39/IAS 37 Impairment provision	**40,366**
Increase/decrease in ECL in Stage 1 and 2	4,734
Increase/decrease in ECL in Stage 3	-
01/012018 - IFRS 9 ECL	**45,100**



IMPACT ON EARNINGS RESERVES

Paragraph 7.2.15 of IFRS 9 requires recognition of differences between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial applications in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

The following table reports the opening balance at January 1, 2018 of the earnings reserves as well as the impact of the introduction of IFRS 9. The table provides separate reporting of:

- the amount at the closing date of the financial statements prepared in accordance with IAS 39;
- the impact of reclassifications made at FTA (other measurement criteria);
- the impact of the expected loss estimated in application of IFRS 9 at FTA;
- the tax effect.

Table 1.2

(€/thousands)	Impact at January 1, 2018
Earnings reserves	
Closing date under IAS 39	399,192
Reclassification under IFRS 9	14,656
Recognition of ECL under IFRS 9	(4,734)
Earnings reserves at 1/1/2018 (IFRS 9)	**409,113**

With regard to earnings reserves (FTA reserve), reclassifications of €14,656 thousand were recognized, while, as a result of the application of impairment, ECL was recognized in the amount of €4,734 thousand, with a consequent positive impact on earnings reserves of €9,922 thousand, gross of tax effects.

The details of the reclassifications are as follows:

- reclassification of debt securities classified as financial instruments available for sale in accordance with IAS 39 to financial assets mandatorily measured at fair value through profit or loss following the failure of the SPPI test pursuant to IFRS 9, with the reallocation of the former positive AFS reserve in the amount of €0.051 thousand to the earnings reserve;
- reclassification of investment fund units, recognized under financial instruments available for sale in accordance with IAS 39, to financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9, with the reallocation of the former positive AFS reserve in the amount of €0.068 thousand to the earnings reserve;
- reclassification of equity securities classified as financial instruments available for sale in accordance with IAS 39 to financial assets mandatorily measured at fair value through profit or loss, with reallocation of the former positive AFS reserve in the amount of €13,422 to profit or loss;
- negative impact on the earnings reserve (FTA reserve) due to the elimination of the embedded derivative in the amount of €0.055 thousand, which had previously been separated from an asset and classified as HFT;
- recognition of earnings reserves in the amount of €1.17 thousand following the elimination of writedowns recognized the previous year, with the consequent recognition of a negative OCI reserve in respect of equity securities classified as assets measured at fair value through other comprehensive income.

The following breaks down the recognition of ECL:

- on debt securities at amortized cost in the amount of €0.131 thousand;
- on debt securities at FVTOCI in the amount of €0.814 thousand;
- on loans and advances in the amount of €3.66 thousand;
- on guarantees and commitments in the amount of €0.125 thousand.

KEY ELEMENTS IN DETERMINING IMPAIRMENT

7 ESTIMATES WITH A FINANCIAL IMPACT

As noted earlier, with regard to impairment for instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments) IFRS 9 introduces a model based on the concept of "expected loss" instead of the "incurred loss" concept provided for under IAS 39.

The standard introduces additional complexity and innovative features for determining provisions. Key factors that materially impact the quantification of impairment losses on loans and securities under IFRS 9 include:

- **a 3-stage** approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
    - **Stage 1**: Financial assets originated and/or acquired that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk;
    - **Stage 2**: Financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
    - **Stage 3**: Financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- **Application of "point-in-time"** formulations of the parameters for measuring credit risk for the purpose of calculating impairment, which had previously been measured using "through-the-cycle" metrics;
- **Calculation of lifetime expected credit loss for exposures not classified in Stage 1**, using lifetime parameters;
- **Inclusion of forward-looking conditioning** in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome.

8 THE NEW IMPAIRMENT MODELS – METHODOLOGICAL APPROACH USED BY ICCREA BANCA

STAGING AND TRANSFER OF FINANCIAL ASSETS BETWEEN STAGES

In accordance with the accounting rules, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.[2]

The stage allocation process is especially important as this drives the determination of provisions for credit risk in respect of each exposure.

Within the stage allocation framework, the Iccrea Banking Group defines the procedures for transferring an individual exposure from one state to another. More specifically:

- within the framework of the monthly monitoring, an asset/tranche may at any time be transferred from stage 1 to stage 2 or vice-versa if it exceeds (or does not exceed, as the case may be) at least one of the staging criteria established by the individual Group companies for the definition of a significant increase in credit risk;

2 The Iccrea Group uses the regulatory definition of default. See Bank of Italy Circular no. 272 of July 30, 2008. The same definition of default was used under IAS 39.

- regardless of the stage to which it is allocated, an asset/tranche may be classified in stage 3 if the loan/security becomes non-performing.

The staging method of the Iccrea Banking Group was developed, separately for each Group company, on the basis of the following drivers.

With regard to the loan portfolio, the methodology developed by the Group envisages:

A. conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the company, overcollateralized exposures and any specific exposures of the individual company;

B. the use, where a rating system is available, of quantitative criteria based on the analysis and comparison of the PD at origination with the PD at the reporting date. If there is no origination PD and only the reporting date PD is available, the methodology provides for the use of the practical expedient of the low credit risk exemption;

C. the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions with more than 30 days past due and forborne performing exposures;

D. the use of the practical expedient of 12-month PD at origination and at the reporting date as proxies for lifetime PD, supported by analysis demonstrating that that approach represents a reasonable approximation.

With regard to point B above, the main trigger, namely a significant increase in credit risk, is determined by comparing the change in the rating class registered between the date of initial recognition and that at the observation date (delta notch). A determination of a significant deterioration is therefore given by an change in the rating caused by downgrades of the position, measured in terms of notches, between the origination of the exposure and the reporting date. This change is an indicator of an increase or decrease in credit risk during the reference period. In order to determine whether, pursuant to the requirements of IFRS 9, an increase in credit risk can be considered “significant” (and therefore require a transfer between stages), specified thresholds have been established, as indicated in **Figure 1** below. Changes below those thresholds are not considered significant and, consequently, do no trigger the transfer of an exposures from Stage 1 to Stage 2. Such a transfer is necessary, however, if the increase in terms of notches exceeds those thresholds.

The determination of the thresholds was calibrated with a view to ensuring a proper balance between performance indicators with respect to the ability of the thresholds to:

- identify stage 2 positions before they deteriorate into default;
- identify positions for which a return to stage 1 is synonymous with an effective improvement in credit quality.

Based on the type of counterparty in the position, the Iccrea Banca loan portfolio is clustered into:

- “Credit institutions” and “Other financial companies”;
- “Non-financial companies” and “Producer households”.

Qualitative staging criteria applied to all exposures include:

- forborne performing exposure: this criterion classifies exposures with forbearance measures in stage 2;
- past due by more than 30 days: this criterion classifies exposures that are past due by more than 30 days at the assessment date in stage 2.

Credit institutions and other financial companies

- for “Credit institutions” and “Other financial companies”, the Bank assigns the rating determined by the RiskCalc rating model of Moody’s Analytics (external rating model).

- depending on the presence or not of a rating at origination and at the reporting date, the Bank applies the following criteria:

Iccrea Banca –Staging criteria: Credit institutions and Other financial companies	
Sample characteristics	**Staging criteria tested**
Presence of rating at the reporting date and at origination	• Migration between rating classes • Forborne performing exposure • Past due by more than 30 days
Presence of rating at the reporting date only	• Low credit risk threshold • Forborne performing exposure • Past due by more than 30 days

The following details the above quantitative criteria:

- migration between rating classes: positions that at the reporting date have a rating that has deteriorated by a specified number of notches from the rating at the origination date are classified in stage 2 as follows:

Figure 1

Rating reporting date (columns) / Rating origination (rows)

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
AAA	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2
A+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
A	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2
A-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
CCC	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2

- Low credit risk threshold: positions that at the reporting date have a rating below the investment grade threshold (BBB–) are classified in stage 2.

Rating reporting date

AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2

In the absence of a rating at both the reporting and origination dates, positions are prudentially classified in stage 2 given the lack of information.

Non-financial companies and producer households

The Bank applies the following qualitative staging criteria to “Non-financial companies” and “Producer households”:[3]

- forborne performing exposure;
- past due by more than 30 days.

3 Households excluding employees of the Iccrea Group.

Summary of staging criteria

By way of example, the following breaks down the qualitative and quantitative staging criteria developed by Iccrea Banca and their application on the basis of the counterparty in the exposure.

Iccrea Banca - Staging criteria for the loan portfolio	
Criteria	**Applicability**
Migration between rating classes	Positions with “Credit institutions” and “Other financial companies”
Low credit risk threshold	Positions with “Credit institutions” and “Other financial companies
Forborne performing exposure	Entire portfolio
Past due by more than 30 days	Entire portfolio

For credit exposures, forborne performing positions allocated to stage 2 remain in this class until, depending on the outcome of the forbearance measures, the conditions for the classification as forborne lapse, i.e. after 24 months, with consequent transfer to stage 1.

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group companies. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test. Securities issued by Group companies and the mutual banks are conventionally allocated to stage 1.

The approach adopted by the Group for FTA provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Securities exposures to Group entities are also automatically allocated to stage 1.

Group companies with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

MAIN DRIVERS OF ECL AND SCENARIOS USED IN IFRS 9 MODELING

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, Iccrea Banca has developed a method using rating models adopted for management purposes in order to obtain point-in-time, forward-looking and lifetime PDs.

For the purpose of estimating the IFRS 9-compliant PD for the loan portfolio, Iccrea Banca uses the ratings determined by the “RiskCalc” of Moody’s Analytics (external rating model) for exposures to “Credit institutions” and “Other financial companies”. The approach used to obtain lifetime PDs, indicated as “RiskCalc”, uses the rating and associated PIT, 1-year and lifetime PDs provided by the external RiskCalc rating model by:

a. using average cumulative PDs for each rating class;
b. extracting the PIT PDs from the average cumulative PDs;
c. reconstructing cumulative lifetime forward-looking PDs.

In addition, for the purposes of calculating the ECL:

- counterparties classified as “Other financial companies” and “Credit institutions” that do not have a rating are assigned the PD associated with the “Ba1/BB+” rating class;
- counterparties classified as “Non-financial companies” are assigned the PD associated with Alvin rating class 6;
- counterparties classified as “Households” are assigned the PD for “Household” counterparties of Banca Sviluppo.

For the securities portfolio, drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "Satellite Model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

For the purposes of estimated the IFRS 9-compliant PD for the securities portfolio, the Iccrea Banking Group uses the 12-month PDs drawn from the Standard & Poor's Sovereign matrices for government securities and corporate bonds:

- the S&P Sovereign matrices provide 12-month PDs only. For this reason they are conditioned by combining the transitions to default provided, including forward-looking information by applying the multipliers from the Satellite Model in the manner indicated in the approach based on observed default rates referred to in point C of this section;
- the S&P Corporate matrices provide 12-month and cumulative PDs. For this reason conditioning uses the approach referred to in point B of this section, thereby:

  a. extracting the PIT PDs from the average cumulative PDs;
  b. constructing the cumulative lifetime forward-looking PDs.

Loss Given Default (LGD)

Iccrea Banca estimates LGD at the counterparty level, associating:

- the regulatory LGD of 45% with exposures to "Credit institutions" and "Other financial companies"»;
- the LGD computed by observing the ratio between specific provisions and the total non-performing exposure and applying the danger-rate matrix for exposures to "Households" and " Non-financial companies".

The latter is estimated in the following steps:

- calculation of coverage ratio for each cluster by loan status (impaired past due, unlikely to pay, non-performing), stating, on the basis of the non-performing portfolio at the reporting date for "Households" and "Non-financial companies", the amount of specific writedowns as a percentage of the total gross exposure;
- calculation, for the entire portfolio, of the probability of transition from "performing" to another status on the basis of data at t-1 and t;
- calculation of the LGD, to be applied to performing positions, as the weighted coverage ratio for the associated probability of transition:

$$LGD_{Perform} = \%\,coverage_{Impaired\ past\ due} * Prob(Perform \rightarrow SD) + \%coverage_{Unlikely\ to\ pay} * Prob(Perform \rightarrow UP) + \%coverage_{Non-perform} * Prob(Perform \rightarrow Non-perform)$$

Exposure At Default (EAD)

The Iccrea Group and Iccrea Banca differentiate the approach used to estimated EAD by loan portfolio on the basis of product type and stage of the exposure, as follows.

For "Amortizing" loans:

- the EAD for stage 1 is equal to the residual debt at the reporting date;
- the EAD for stage 2 is calculated by taking the residual debt drawn from management data in repayment plans for each exposure, then applying a transformation coefficient differentiated by residual life. The estimation involves the following steps:
  a. clustering of exposures by residual life (years);

b. application of the following formula to individual exposures:

$$EAD_{Lifetime} = \sum_{t=0}^{T} \left(EADt \frac{PD\ Marginal_t}{PD\ Cumulative_T} \right) * \frac{1}{(1+EIR)^t}$$

where EIR is equal to the TIR of the exposure;

c. calculate, for each exposure, the following transformation coefficient: $\frac{\mathrm{EAD_{Lifetime}}}{\mathrm{EAD_0}}$;

d. calculated the average transformation coefficient differentiated by years of residual life.

For "Revolving" loans and "Guarantee" exposures, the EAD for stage 1 and stage 2 is equal to the residual debt t the reporting date.

For "Margin" positions, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date with application of the regulatory CCF.

For the securities portfolio, the EAD associated with each securities issue is determined, where available, the gross value of the exposure (tel quel value) at the reporting date.

If this is not available, the carrying amount of the issue at the same date is used as proxy for the EAD.

For exposures in securities with amortization plans, the EAD for stage 1 is calculated as the residual debt at the reporting date, while the EAD for stage 2 is calculated on the basis of the residual debt drawn from the annual maturities over the residual life of the exposure, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure (the approach for amortizing exposures in stage 2).

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Iccrea Banking Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

The Iccrea Group and Iccrea Banca condition risk parameters for future macroeconomic scenarios by estimating, on an annual basis, models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of certain reference variables (default rates, amount of non-performing positions, etc.).

In order to obtain a PD that reflects future macroeconomic conditions, we estimate "satellite models" differentiated by counterparty type that "explain" the relationship linking default rates to a set of "explanatory" macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, Iccrea Banca estimates a regression model that "explains" the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of "explanatory" macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, Iccrea Banca associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

The following set of variables is used in the models:

- GDP;
- yield on 10-year BTPs;
- inflation rate;

- unemployment rate;
- house price index.

9 DETERMINATION OF RESIDUAL LIFE OF FINANCIAL ASSETS

The residual life of financial assets, given in years, is determined as the difference between the reporting date and the maturity date of the financial asset. The maximum residual life is capped at 30 years. If the residual life is less than one year or the maturity date is unknown, the residual life is assumed to be one year.

FINANCIAL TABLES

10 CREDIT RISK: COMPARISON OF LOSS ALLOWANCES UNDER IFRS 9 AND IAS 39

The following table reconciles the closing balance at December 31, 2017 of impairment provisions for financial assets under IAS 39 and provisions for payment obligations and guarantees under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) with the balance of loss allowances at January 1, 2018, as determined in accordance with IFRS 9.

Table 1.3

Measurement category	Impairment provisions under IAS 39/ IAS 37 provisions (€/thousands)	Reclassification impact (€/thousands)	Recognition of ECL under IFRS 9 (€/thousands)	Loss provisions under IFRS 9 (€/thousands)
Loans and receivables (IAS 39) / Financial assets measured at amortized cost (IFRS 9)	**40,366**	**-**	**3,795**	**44,161**
due from banks	-		3,126	3,126
loans to customers	40,366		538	40,904
debt securities	-		131	131
Loans and Receivables (IAS 39) / Financial assets measured at fair value through profit or loss (IFRS 9)	-	-	-	-
due from banks				-
loans to customers				-
debt securities				-
Financial assets available for sale (IAS 39) / Financial assets measured at fair value through other comprehensive income (IFRS 9)	-	-	814	814
debt securities			814	814
Financial assets held to maturity (IAS 39) / Financial assets measured at amortized cost (IFRS 9)	-	-	-	-
debt securities				-
Off-balance-sheet commitments and guarantees	-	-	125	125
Commitments to disburse funds	-		26	26
Financial guarantees granted	-		99	99
Total	**40,366**	**-**	**4,734**	**45,100**

The breakdown by technical form of remeasurements in the amount of €4,734 thousand is given under Table 1.2.

11 CREDIT QUALITY

The following table provides an analysis of loss allowances for financial assets before and after application of IFRS 9.

Table 1.4

(€/thousands)	31/12/2017 IAS 39 reclassified	Collective impairment provisions - IAS 39/IAS 37	Specific impairment provisions – IAS 39/IAS 37	IFRS 9 ECL					
				Stage 1 adjustments	Stage 2 adjustments	Stage 3 adjustments	FTA adjustments - IFRS 9	Total adjustments at 01.01.2018	IFRS 9 ECL Coverage Ratio (%)
Financial assets measured at amortized cost	30,711,867	775	39,591	3,720	850		3,795	44,161	0.144%
due from banks	24,560,756			2,382	744		3,126	3,126	0.013%
loans to customers	6,151,111	775	39,591	1,338	106		669	41,035	0.662%
Financial assets measured at fair value through other comprehensive income	2,794,611		-	396	418	-	814	814	0.029%
Financial assets measured at fair value through profit or loss	870,896						-	-	0.000%
Total on-balance-sheet exposures	34,377,374	775	**39,591**	**4,116**	**1,268**	**-**	**4,610**	**44,975**	**0.131%**
Off-balance-sheet commitments and guarantees	7,311,261		-	103	21	-	125	125	0.002%
Total on- and off-balance-sheet exposures	**41,688,635**	**775**	**39,591**	**4,220**	**1,290**	**-**	**4,734**	**45,100**	**0.108%**

The following table compares writedowns post IFRS 9, broken down on the basis of credit quality by risk stage and position status.

Table 1.5

	FTA adjustments (€/thousands)	Total writedowns at 01.01.2018 (€/thousands)
Non-performing		39,445
Unlikely to pay		146
Past due/Over limit		-
Impaired positions	**-**	**39,591**
of which in Stage 3		
Loans measured at FVTPL		-
Performing positions	**3,664**	**4,439**
of which in Stage 2		850
of which in Stage 1		3,589
Loans measured at FVTPL		-
Performing securities positions	**945**	**945**
of which in Stage 2	418	418
of which in Stage 1	527	527
Total writedowns of on-balance-sheet exposures	**4,609**	**44,975**
Off-balance-sheet commitments and guarantees	**125**	**125**
of which in Stage 2	21	21
of which in Stage 1	104	104
Total writedowns of on- and of-balance-sheet exposures	**4,734**	**45,100**

RECONCILIATION STATEMENTS The transition disclosures are intended to provide a reconciliation between:

- the measurement categories presented in accordance with IAS 39 and IFRS 9;
- the class of financial instrument.

In the year of first-time application of IFRS 9 it will not be necessary to present the amount of individual financial statement items that were reported in compliance with the classification and measurement requirements (which include the provisions governing measurement of financial assets at amortized cost and the associated impairment) under:

a. IFRS 9 for previous years;
b. IAS 39 for the current year.

Iccrea Banca reports the carrying amount at the reporting date of financial assets whose cash flows have been assessed on the basis of the facts and circumstances at the time of initial recognition of the financial asset, without taking account of the provisions concerning modifications of the time value of money element in paragraphs B4.1.9B-B4.1.9D of IFRS 9 until the financial assets are derecognized.

12 RECONCILIATION STATEMENTS AND EXPLANATORY NOTES

In addition to the reclassifications due to the application of IFRS 9 (i.e. for the business model and the SPPI test), other reclassifications include those attributable to the introduction of the new official formats introduced with the update of Circular no. 262/2005 of the Bank of Italy in December 2017, which incorporate the new presentation approached introduced with IFRS 9. The reconciliation between the published balance sheet and income statement at December 31, 2017 with the new financial statement schedules envisaged in the updated Circular no. 262/2005 is given in this Interim Report.

The following tables contain a reconciliation of the separate balance sheet as reported in the 2017 financial statements and the separate balance sheet modified in accordance with the classification criteria introduced with IFRS 9. The account balances determined in accordance with IAS 39 (balances at December 31, 2017) are mapped to the new IFRS 9 category, taking sole account of the new classification criteria without application of new measurement criteria, leaving unaltered total assets and liabilities under IFRS 9 from the total assets and liabilities measures in accordance with IAS 39.

Tables 1.6 and 1.7

IFRS 39 schedule – ASSETS (€/thousands)	IFRS 9 schedule – ASSETS (€/thousands)																
	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss			30. Financial assets measured at fair value through other comprehensive income	40. Financial assets measured at amortized cost		50. Hedging derivatives	60. Value adjustments of financial assets hedged generically (+/–)	70. Equity investments	80. Property and equipment	90. Intangible assets	100. Tax assets		110. Non-current assets and disposal groups held for sale	120. Other assets	31/12/2017 IAS 39
		a) financial assets held for trading	b) financial assets designated as at fair value	c) other financial assets mandatorily measured at fair value		a) due from banks	b) loans to customers						a) current	b) deferred			
10. Cash and cash equivalents	98.307																98.307
20. Financial assets held for trading		316.785															316.785
30. Financial assets at fair value through profit or loss				15.630													15.630
40. Financial assets available for sale				468.085	2.801.715		229.165										3.498.965
50. Financial assets held to maturity																	–
60. Due from banks						24.560.756											24.560.756
70. Loans to customers				61.053			5.924.184										5.985.237
80. Hedging derivatives								6.716									6.716
90. Value adjustments of financial assets hedged generically (+/–)									5								5
100. Equity investments										1.193.547							1.193.547
110. Property and equipment											14.430						14.430
120. Intangible assets												11.126					11.126
130. Tax assets	–	–	–	–	–	–	–	–	–	–	–	–	42.466	24.623	–	–	67.089
a) current													42.466				42.466
b) deferred														24.623			24.623
140. Non-current assets and disposal groups held for sale																	–
150. Other assets																249.519	249.519
31/12/2017 IAS 39 reclassified (€/000)	**98.307**	**316.785**	**–**	**544.768**	**2.801.715**	**24.560.756**	**6.153.349**	**6.716**	**5**	**1.193.547**	**14.430**	**11.126**	**42.466**	**24.623**	**–**	**249.519**	**36.018.113**

IFRS 9 schedule – LIABILITIES (€thousands)

IFRS 39 schedule – LIABILITIES (€thousands)	10. Financial liabilities measured at amortized cost			20. Financial liabilities held for trading	30. Financial liabilities designated as at fair value	40. Hedging derivatives	50. Value adjustments of financial liabilities hedged generically	60. Tax liabilities		70. Liabilities associated with assets held for sale	80. Other liabilities	90. Employee termination benefits	100. Provisions for risks and charges			110. Valuation reserves	130. Redeemable shares	130. Capital instruments	140. Reserves	150. Share premium account	160. Share capital	170. Treasury shares	180. Net profit (loss) for the period (+/-)	31/12/2017 IAS 39
	a) due to banks	b) due to customers	c) securities issued					a) current	b) deferred				a) commitments and guarantees issued	b) post-employment benefits	c) other									
10. Due to banks	19,401,520																							19,401,520
20. Due to customers		8,243,380																						8,243,380
30. Securities issued			5,874,245																					5,874,245
40. Financial liabilities held for trading				365,384																				365,384
50. Financial liabilities at fair value through profit or loss																								-
60. Hedging derivatives						48,028																		48,028
70. Value adjustments of financial liabilities hedged generically																								-
80. Tax liabilities	-	-	-	-	-	-	-	-	2,773	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,773
a) current																								-
b) deferred									2,773															2,773
90. Liabilities associated with assets held for sale																								-
100. Other liabilities											466,596													466,596
110. Employee termination benefits												11,312												11,312
120. Provisions for risks and charges:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,152	-	-	-	-	-	-	-	-	7,152
a) post-employment benefits																								-
b) other															7,152									7,152
130. Valuation reserves																66,834								66,834
140. Redeemable shares																								-
150. Capital instruments																								-
160. Reserves																			401,194					401,194
170. Share premium account																				4,747				4,747
180. Share capital																					1,151,045			1,151,045
190. Treasury shares																						(30,847)		(30,847)
200. Net profit (loss) for the period (+/-)																							4,751	4,751
31/12/2017 IAS 39 reclassified	**19,401,520**	**8,243,380**	**5,874,245**	**365,384**	**-**	**48,028**	**-**	**-**	**2,773**	**-**	**466,596**	**11,312**	**-**	**-**	**7,152**	**66,834**	**-**	**-**	**401,194**	**4,747**	**1,151,045**	**(30,847)**	**4,751**	**36,018,114**

13 IFRS 9 IMPACT ON OPENING BALANCE SHEET AND SHAREHOLDERS' EQUITY

The following tables report the indicative impact of the changes in presentation and the transition to IFRS 9 on the balance sheet of Iccrea Banca, which reports separately the changes due to reclassification, the new measurement criteria and the impact of an increase in impairment.

Table 1.8

	Circular 262/2005 5th update - ASSETS	31/12/2017 IAS 39 reclassified (€/thousands)	Classification and measurement (€/thousands)	Impairment (€/thousands)	1/1/2018 IFRS 9 (€/thousands)
10.	**Cash and cash equivalents**	98,307			**98,307**
20.	**Financial assets measured at fair value through profit or loss**	870,896	(436)		**870,460**
	a) financial assets held for trading	316,785	(55)		**316,730**
	b) financial assets designated as at fair value	-			**-**
	c) other financial assets mandatorily measured at fair value	554,110	(381)		**553,730**
30.	**Financial assets measured at fair value through other comprehensive income**	2,794,611			**2,794,611**
40.	**Financial assets measured at amortized cost**	30,711,867	(891)	(3,795)	**30,707,181**
	a) due from banks	24,560,756	-	(3,126)	**24,557,630**
	b) loans to customers	6,151,111	(891)	(669)	**6,149,551**
50.	**Hedging derivatives**	6,716			**6,716**
60.	**Value adjustments of financial assets hedged generically (+/-)**	5			**5**
70.	**Equity investments**	1,193,547			**1,193,547**
90.	**Plant and equipment**	14,430			**14,430**
100.	**Intangible assets**	11,126			**11,126**
110.	**Tax assets**	67,089	(533)		**67,089**
	a) current	42,466			**42,466**
	b) deferred	24,623	(533)		**24,623**
120.	**Non-current assets and disposal groups held for sale**	-			**-**
130.	**Other assets**	249,519			**249,519**
	Total assets	**36,018,113**	**(1,860)**	**(3,795)**	**36,012,458**

The different classification of financial assets in the new categories envisaged under IFRS 9 and the consequent change in measurement methodology had an overall negative impact of €1,860 thousand.

This value breaks down as follows:

- a negative impact on the earnings reserve (FTA reserve) due to the elimination of the embedded derivative in the amount of €0.055 thousand, which had previously separated been from an asset and classified as HFT;
- reclassification of financial assets measured at amortized cost to financial assets mandatorily measured at fair value following failure to pass the SPPI test, with a consequent reduction in the carrying amount equal to €0.381 thousand. This coincides with the value already recognized under other liabilities in the previous year, as detailed in table 1.9 below;
- reclassification of assets available for sale in accordance with IAS 39 to financial assets measured at amortized cost, with a consequent recalculation of the carrying amount through elimination of the AFS reserve of €0.891 thousand;

- effect of the reversal of deferred taxes (assets and liabilities) for a net total of €1.244, thousand accrued as at December 31,2017 on assets available for sale under IAS 39 reclassified in accordance with IFRS 9, as shown above.

The application of the new impairment rules (expected credit losses) to financial assets measured at amortized cost (on-balance-sheet exposures) reduced their value by €3,795 thousand, with an associated negative impact on shareholders' equity as well.

Table 1.9

	Circular 262/2005 5th update - LIABILITIES	31/12/2017 IAS 39 reclassified (€/thousands)	Classification and measurement (€/thousands)	Impairment (€/thousands)	1/1/2018 IFRS 9 (€/thousands)
10.	**Financial liabilities measured at amortized cost**	33,519,145			**33,519,145**
	a) due to banks	19,401,520			**19,401,520**
	b) due to customers	8,243,380			**8,243,380**
	c) securities issued	5,874,245			**5,874,245**
20.	**Financial liabilities held for trading**	365,384			**365,384**
30.	**Financial liabilities designated as at fair value**	-			**-**
40.	**Hedging derivatives**	48,028			**48,028**
50.	**Value adjustments of financial liabilities hedged generically**	-			**-**
60.	**Tax liabilities**	2,773	(1,778)		**2,773**
	a) current	-			**-**
	b) deferred	2,773	(1,778)		**2,773**
70.	**Liabilities associated with assets held for sale**	-			**-**
80.	**Other liabilities**	466,596	(381)		**466,215**
90.	**Employee termination benefits**	11,312			**11,312**
100.	**Provisions for risks and charges**	7,152		125	**7,277**
	a) commitments and guarantees granted	-		125	**125**
	b) post-employment benefits and similar	-			**-**
	c) other provisions for risks and charges	7,152			**7,152**
110.	**Valuation reserves**	66,834	(14,358)	814	**52,046**
120.	**Redeemable shares**	-			**-**
130.	**Equity instruments**	-			**-**
140.	**Reserves**	401,194	14,656	(4,734)	**411,116**
150.	**Share premium account**	4,747			**4,747**
160.	**Share capital**	1,151,045			**1,151,045**
170.	**Treasury shares**	(30,847)			**(30,847)**
180.	**Net profit (loss) for the period (+/-)**	4,751			**4,751**
	Total liabilities and shareholders' equity	**36,018,114**	**(1,860)**	**(3,795)**	**36,012,458**

With regard to liabilities, greater writedowns were recognized for impairment of guarantees granted and commitments (irrevocable and revocable) to disburse funds in the amount of €125 thousand under provisions for risks and charges. The change in valuation reserves of €814 thousand is due to the IFRS 9 impairment of securities classified as FVTOCI. For more on the effects of classification and measurement, please see to the discussion under table 1.8.

14 SHAREHOLDERS' EQUITY: RECONCILIATION BETWEEN FIGURES AT DECEMBER 31, 2017 (IAS 39) AND JANUARY 1, 2018

The following table reports the impact on shareholders' equity of the introduction of IFRS 9, which totaled €3,622 thousand gross of tax effects.

Shareholders' equity at January 1, 2018 (under IFRS 9) amounted to €1,594,102 thousand, a decrease on shareholders' equity of €1,597,724 thousand at December 31, 2017 (under IAS 39).

The following reports the impact for each balance-sheet item of classification, measurement and impairment under the new IFRS 9, gross of tax effects.

Table 1.10

(€/thousands)	IFRS 9 transition effect
Shareholders' equity IAS 39 (31/12/2017)	**1,597,724**
Item 20. Financial assets measured at fair value through profit or loss	**13,486**
Measurement effect	(55)
Measurement effect (earnings reserve)	13,541
Impairment effect	-
Item 30. Financial assets measured at fair value through other comprehensive income	**(12,297)**
Measurement effect	-
Measurement effect (Valuation reserve)	(12,297)
Impairment effect (Earnings reserve)	(814)
Impairment effect (Valuation reserve)	814
Item 40. Financial assets measured at amortized cost	**(4,686)**
Measurement effect – formerly FVTOCI under IAS 39 (formerly AFS)	(891)
Impairment effect	(3,795)
- Stages 1 and 2	(3,795)
- Stage 3	-
Off-balance-sheet commitments and guarantees	**(125)**
Measurement effect	-
Impairment effect	(125)
- Stages 1 and 2	(125)
- Stage 3	-
Total impact on shareholders'' equity	**(3,622)**
Shareholders' equity IFRS 9 1/1/2018	**1,594,102**

Note that at the time of first-time adoption of IFRS 9, reclassifications were made between valuation reserves and earnings reserves (FTA reserve) due to both the application of the new classification and measurement criteria, and the effect of application of the new impairment methodologies, with no impact on equity.

The former, amounting to €000 12,297 thousand, derive from the reclassification of financial assets (debt and equity securities) available for sale in accordance with IAS 39 to financial assets mandatorily measured at fair value through profit or loss, as detailed following table 1.2.

With regard to reclassified debt securities under the assets measured at fair value through other comprehensive income, the application of the new impairment rules led to an increase in the valuation reserve of €814 thousand, with a consequent negative effect on earnings reserves.

In this regard, the positive impact on equity resulting from the new classification and measurement rules is €298 thousand. With regard to impairment, the negative impact associated with the higher writedowns was equal to €3,920 thousand.

15 Financial instruments: transfers between IAS 39 categories and IFRS 9 categories

For the financial assets and liabilities held by Iccrea Banca at December 31, 2017, the following tables show the changes in classification following the SPPI test and the benchmark test performed at FTA and introduced with IFRS 9, considering changes in the business model and/the characteristics of the contractual cash flows. The values reported in the column headed "01/01/2018" reflect the reclassification, measurement and impairment effects under IFRS 9.

Table 1.11

Categories of financial instrument Assets	IAS 39		Measurement category under IFRS 9			IFRS 9 reclassified
	31/12/2017 (€/thousands)	Measurement category under IAS 39	Fair value through profit and loss	Fair value through other comprehensive income	Amortized cost	01/01/2018 (€/thousands)
Financial assets measured at amortized cost	X	X			✔	30,714,105
Due from banks	24,560,756	AC			✔	24,560,756
Loans to customers	5,985,237	AC	✔		✔	6,153,349
Financial assets held to maturity	-	AC				-
Financial assets measured at fair value through profit or loss	X	X	✔			861,554
Financial assets held for trading	316,785	FVTPL	✔			316,785
Financial assets measured at fair value(FVO)	15,630	FVTPL				X
Financial assets designated as at fair value (FVO)	X	X				-
Other financial assets mandatorily measured at fair value	X	X	✔			554,768
Financial assets measured at fair value through other comprehensive income	X	X		✔		2,801,715
Financial assets available for sale	3,498,965	FVTOCI	✔	✔	✔	X
Total	**34,377,374**					**34,377,374**

Table 1.12

Categories of financial instrument liabilities	31/12/2017 (€/thousands)	Measurement category under IAS 39	Measurement category under IFRS 9		
			Fair value through profit and loss	Amortized cost	01/01/2018 (€/thousands)
Financial liabilities measured at amortized cost	X	X		✔	33,519,144
Due to banks	19,401,520	AC		✔	19,401,520
Due to customers	8,243,380	AC		✔	8,243,380
Securities issued	5,874,245	AC		✔	5,874,245
Financial liabilities held for trading	365,384	FVTPL	✔		365,384
Financial liabilities measured at fair value (FVO)	-	FVTPL			-
Financial liabilities designated as at fair value (FVO)	X	X	✔		-
Total	**33,884,528**				**33,884,528**

With regard to the above tables, note that:

- "Due from banks" and "Loans to customers" at December 31, 2017 were reported at items 60 and 70 under assets in the balance sheet. Following the introduction of IFRS 9, "Due from banks" was reclassified entirely at January 1, 2018 as a sub-item of item 40. "Financial assets measured at amortized cost", while "Loans to customers" were reclassified in the amount of €61,053 thousand under item 20.c) "Other assets mandatorily measured at fair value", with the remainder being reclassified to item 40. "Financial assets measured at amortized cost".
- "Financial assets held for trading" at December 31, 2017 were reported as item 20 under assets in the balance sheet. Following the introduction of IFRS 9 they were reclassified at January 1, 2018 as a sub-item of item 20. "Financial assets measured at fair value through profit or loss";
- "Assets available for sale" were reclassified in the amount of €468,085 thousand to item 20.c) "Other assets mandatorily measured at fair value", €229,165 thousand to item 40 "Financial assets measured at amortized cost" and the remainder to item 30 "Financial assets measured at fair value through other comprehensive income".
- "Due to banks", "Due to customers" and "Securities issued" at December 31, 2017 were reported under items 10, 20 and 30 of the balance sheet. Following the introduction of IFRS 9 they were reclassified at January 1, 2018 as sub-items of items 10. "Financial assets measured at amortized cost".

The following table breaks down the reclassification of financial assets and liabilities from the previous measurement category under IAS 39 to their new category under IFRS 9, reporting the impact of the new measurement methods.

Table 1.13

01/01/2018	Value IAS 39 31/12/2017	Reclassification	Remeasurement	Value IFRS 9 01/01/2018
Amortized cost				
Cash and cash equivalents				
Period close IAS 39	98,307	X	X	X
Period open IFRS 9	X	X	X	98,307
Financial assets held to maturity (HTM)				
Period close IAS 39		X	X	X
Differences: to Loans to customers (IFRS 9)	X			X
Differences: to Designated as at FVTPL (IFRS 9)	X			X
Period open IFRS 9	X	X	X	-
Due from banks				
Period close IAS 39	24,560,756	X	X	X
Remeasurement: ECL	X		(3,126)	X
Additions: from Financial assets HTM (IAS 39)	X			X
Remeasurement: ECL	X			X
Additions: from AFS (IAS 39)	X			X
Remeasurement: from FV to AC	X			X
Additions: from FVTPL (IAS 39)	X	-		X
Remeasurement: from FV to AC	X			X
Period open IFRS 9	X	X	X	24,557,630
Loans to customers				
Period close IAS 39	5,985,237	X	X	X
Remeasurement: ECL			(669)	
Differences: al FVTPL (IFRS 9)	X	-		X
Remeasurement: ECL	X		-	X
Differences: to Designated as at FVTPL (IFRS 9)	X			X
Remeasurement: ECL	X			X
Differences: to Mandatorily at FVTPL (IFRS 9)	X	(61,053)		X
Remeasurement: ECL	X			X
Additions: from financial assets HTM (IAS 39)	X			X
Remeasurement: ECL	X			X
Additions: from AFS (IAS 39)	X	229,165	(891)	X
Remeasurement: from FV to AC	X			X
Additions: from Measured at FVTPL (FVO IAS 39)	X			X
Remeasurement: from FV to AC	X			X
Period open IFRS 9	X	X	X	6,151,789
Total amortized cost	**30,644,301**	**168,112**	**(4,686)**	**30,807,727**

01/01/2018	Value IAS 39 31/12/2017	Reclassification	Remeasurement	Value IFRS 9 01/01/2018
Fair value through profit or loss (FVTPL)				
Financial assets held for trading				
Debt securities				
Period close IAS 39	11,629	X	X	X
Additions: from amortized cost (IAS 39)	X	(55)		X
Remeasurement: from amortized cost to FV	X			X
Additions: from AFS (IAS 39)	X			X
Differences: to amortized cost (IFRS 9) - Voluntary reclassification	X			X
Differences: to "mandatory FVTPL" (IFRS 9)	X			X
Period open IFRS 9	X	X	X	11,574
Equity securities				
Period close IAS 39	432	X	X	X
Additions: from amortized cost (IAS 39)	X			X
Remeasurement: from amortized cost to FV	X			X
Additions: from AFS (IAS 39)	X			X
Differences: to amortized cost (IFRS 9) - Voluntary reclassification	X			X
Differences: to "mandatory FVTPL" (IFRS 9)	X			X
Period open IFRS 9	X	X	X	432
Units of collective investment undertakings				
Period close IAS 39	539	X	X	X
Differences: to "mandatory FVTPL" (IFRS 9)	X			X
Period open IFRS 9	X	X	X	539
Loans				
Period close IAS 39		X	X	X
Additions: from amortized cost (IAS 39)	X			X
Remeasurement: from amortized cost to FV	X			X
Additions: from AFS (IAS 39)	X			X
Additions: from AFS (IAS 39)	X			X
Differences: to amortized cost (IFRS 9) - Voluntary reclassification	X			X
Differences: to "mandatory FVTPL" (IFRS 9)	X			X
Period open IFRS 9	X	X	X	-
Derivatives				
Period close IAS 39	304,185	X	X	X
Additions: from amortized cost (IAS 39)	X			X
Remeasurement: from amortized cost to FV	X			X
Additions: from AFS (IAS 39)	X			X
Differences: to "mandatory FVTPL" (IFRS 9)	X			X
Period open IFRS 9	X			304,185
Period close Financial assets held for trading IFRS 9	316,785	X	X	X
Period open Financial assets held for trading IFRS 9	X	X	X	316,730
Financial assets measured at fair value(FVO)				
Period close IAS 39	15,630	X	X	X
Differences: to Mandatorily at FVTPL (IFRS 9)	X	(15,630)		X
Differences: to amortized cost (IFRS 9) - Voluntary reclassification	X			X
Differences: to Designated as at FVTPL (IFRS 9)	X			X
Period open IFRS 9	X	X	X	-
Financial assets designated as at fair value (FVO)				
Period close IAS 39	X	X	X	X
Additions: from Measured at FVTPL (FVO IAS 39)	X			X
Additions: from Loans to customers (IAS 39)	X			X
Remeasurement: from amortized cost to FV	X			X
Additions: from HTM (IAS 39)	X			X
Remeasurement: from amortized cost to FV	X			X
Period open IFRS 9	X	X	X	-
Other financial assets mandatorily measured at fair value				

Period close IAS 39	-	X	X	X
Additions: from AFS (IAS 39)	X	468,085		X
Additions: from Measured at FVTPL (FVO AS 39)	X	15,630		X
Additions: from Loans to customers (IAS 39)	X	61,053	(381)	X
Remeasurement: from amortized cost to FV	X	-	-	X
Additions: from Debt securities FVTPL (IAS 39)	X			X
Additions: from Equity securities FVTPL (IAS 39)	X			X
Additions: from Units of CIUs FVTPL (IAS 39)	X			X
Period open IFRS 9	X	X	X	544,388
Total Fair value through profit or loss (FVTPL)	**649,200**	**529,083**	**(381)**	**861,118**

01/01/2018	Value IAS 39 31/12/2017	Reclassification	Remeasurement	Value IFRS 9 01/01/2018
Fair value through other comprehensive income (FVTOCI)				
Financial assets measured at fair value through other comprehensive income				
Debt securities				
Period close IAS 39	-	X	X	X
Additions: from AFS (IAS 39)	X	2,788,462		X
Period open IFRS 9	X	X	X	2,788,462
Equity securities				
Period close IAS 39	-	X	X	X
Additions: from AFS (IAS 39)	X	13,253		X
Period open IFRS 9	X	X	X	13,253
Loans				
Period close IAS 39		X	X	X
Additions: from AFS (IAS 39)	X			X
Period open IFRS 9	X	X	X	-
Period open IFRS 9 Financial assets measured at fair value through other comprehensive income	-	2,801,715	-	2,801,715
Financial assets available for sale (AFS)				
Period close IAS 39	3,498,965	X	X	X
Differences: to mandatorily FVTPL (IFRS 9)	X	(468,085)		X
Differences: to amortized cost (IFRS 9)	X	(229,165)		X
Differences: to FVTOCI (equity securities)	X	(13,253)		X
Differences: to FVTOCI (debt securities)	X	(2,788,462)		X
Period open IFRS 9	X	X	X	-
Total Fair value through other comprehensive income (FVTOCI)	**3,498,965**	**(697,250)**	**-**	**2,801,715**

01/01/2018	Value IAS 39 31/12/2017	Reclassification	Remeasurement	Value IFRS 9 01/01/2018
Amortized cost				
Due to banks				
Period close IAS 39	19,401,520	X	X	X
Period open IFRS 9	X	X	X	19,401,520
Due to customers				
Period close IAS 39	8,243,380	X	X	X
Period open IFRS 9	X	X	X	8,243,380
Securities issued				
Period close IAS 39	5,874,245	X	X	X
Differences: to Designated as at FVTPL (FVO IFRS 9)		-		
Additions: from Measured at FVTPL (FVO IAS 39)	X			X
Period open IFRS 9	X	X	X	5,874,245
Amortized cost	**33,519,144**	**-**	**-**	**33,519,144**
Fair value through profit or loss (FVTPL)				
Financial liabilities held for trading				
Period close IAS 39	365,384	X	X	X
Period open IFRS 9	X	X	X	365,384
Financial liabilities measured at fair value				
Period close IAS 39		X	X	X
Differences: to Designated as at FVTPL (IFRS 9)	X			X
Differences: to Securities issued (IFRS 9)	X			X
Period open IFRS 9	X	X	X	-
Financial liabilities designated as at fair value				
Period close IAS 39	-	X	X	X
Additions: from Securities issued (IAS 39)	X			X
Remeasurement: from amortized cost to FV	X			X
Period open IFRS 9	X	X	X	-
Total Fair value	**365,384**	**-**	**-**	**365,384**

IFRS 9 AND DIFFERENCES WITH IAS 39

The following comparative table sets out the main regulatory differences between IAS 39 and IFRS 9:

IMPAIRMENT

Key terms	IAS 39	IFRS 9
Scope of application	Assets measured at amortized cost are written down when there is objective evidence of impairment. The losses are measured by comparing the gross carrying amount with the discounted future cash flows . Losses that could be incurred as a result of future events are not recognized. For AFS financial assets, impairment is recognized when there is an evident objective difficulty in recovering future cash flows. Impairment is measured as the decrease in fair value below cost at initial recognition.	The same measurement and recognition requirements apply to financial assets recognized at amortized cost and those measured at FVOCI. Impairment is not recognized for equity instruments measured at FVOCI. Impairment is recognized for all financial assets with 12-month ECL and lifetime ECL. ECL is measured considering all reasonable and supportable information, including information about past events, current conditions and forecasts of future economic conditions.
Impaired/Stage 3	The criterion used to determine whether there is objective evidence of impairment for loans assessed individually is the same under IAS 39 and IFRS 9. The determination of the realizable value of a security is based on the most recent updated market value when the impairment assessment is carried out, which is not adjustment for expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for uniform groups of performing loans that are not assessed individually, using historical loss rates for that category of loan. Non-performing loans are assessed individually and collectively for certain categories of non-performing and unlikely to pay positions. In any event, loans are classified as impaired when they are More than 90 days past due or have been renegotiated for credit risk reasons.	The stage 3 population is consistent with individually assessed impaired loans under IAS 39. For loans to be assessed on a collective basis, the calculation of discounted individual cash flows continues to be performed collectively as under IAS 39. However, the net realizable value reflects future expected changes in the market, and the losses relating to cash flows in different scenarios are subject to probabilistic adjustments to determine the ECL, rather than using the best estimate of cash flows. For the population of individually assessed positions, allocation to Stage 3 is determined by considering relevant objective evidence. Mainly, consideration is given to contractual payments of principal, or interest past due by more than 90 days, or forbearance measures granted to the borrower for economic reasons or reasons relating to the financial condition of the debtor, or the loan. The loss allowance is determined using the same calculation adopted for stage 2, but with the probability of default set to 1. The result may therefore not be the same as that determined under IAS 39, and the statistical methods and the population identified as stage 3 will not match necessarily to those described by IAS 39.
Stage 2	The concept is not developed under IAS 39.	Reasonable and supportable information shall be taken into consideration when determining whether there is a need to recognize lifetime expected credit losses . Credit risk analysis is multifactorial and holistic. Decisions about whether a certain element is relevant and its weight with respect to other factors depends on the type of product, on the characteristics of the financial instruments, on the borrower, and geographical area. The presence of payments past due by more than 30 days is not an absolute indicator of the need to recognize lifetime expected losses, but it is presumed that it is the time period within which lifetime expected credit losses should also be disclosed when using information indicative of expected developments (including macroeconomic factors at the portfolio level). Financial assets for which credit risk has not increased significantly are written down using a 12-month PD.
Stage 1	The concept is not developed under IAS 39. However, incurred but not yet identified impairment is assessed for loans for which no evidence of impairment has been identified in the collective assessment of loss determined after taking into consideration factors including the estimated period between when the impairment occurred and when the loss is identified. This is assessed empirically on a periodic basis and may change over time. Similarly, for uniform groups of loans measured in accordance with IAS 39 on a collective basis, the intrinsic loss is determined by using risk factors including the period of time between the identification of the loss and derecognition, which is regularly compared with actual outcomes.	For financial instruments in which the default structure is not concentrated at a specific point in the expected life of the financial instrument, changes in the risk of default over the next 12 months may be a reasonable approximation of changes in the risk of default over the life of the instrument. In these cases, changes in default risk over the next 12 months are used to determine if credit risk has increased significantly after initial recognition, unless circumstances indicate that a lifetime assessment is required. Financial assets for which credit risk has not increased significantly are written down using a 12-month PD.
Probability of Default (PD)	Point in Time (PIT): the PD of debtors is sensitive to short-term macroeconomic developments. Accordingly, it increases during a recession and declines during an expansion. Though the Cycle (TTC): the PD of debtors is given by an average default rate for a specific borrower, ignoring short-term macroeconomic developments.	Point in Time (PIT): the PD of debtors is sensitive to short-term macroeconomic developments. Accordingly, it increases during a recession and declines during an expansion.
Forward-looking and multiple scenarios	The concept is not developed under IAS 39.	IFRS 9 requires consideration of forward-looking information in determining if credit risk has increased significantly and in determining expected credit loss, considering the possible probability-weighted scenarios .
Loss Given Default (LGD)	LGD is determined as a parameter for assessing collective impairment and for the assessment of expected loss on specific positions. The estimation of LGD is determined on the basis of statistical information.	LGD is an assessment of the amount that will be recovered in the event of default, taking into account future conditions. In determining LGD, only direct costs are included.
Exposure at Default (EAD)	Carrying amount	"Expected" developments in the EAD over the residual life of the instrument. For the purposes of quantifying the EAD associated with each issue of financial instruments, the gross value of the exposure at the reporting date is generally used.

CLASSIFICATION & MEASUREMENT

Key terms	IAS 39	IFRS 9
Classification	Financial assets are measured at amortized cost (L & R and HTM), FVOCI (AFS) or fair value through profit or loss (derivatives and assets held for trading) depending on the nature of the instruments and the purpose for which they are held. Embedded derivatives are separated unless the entire contract is measured at fair value through profit or loss . The fair value option is applied to embedded derivatives that are not closely related that have not been separated, for financial instruments measured at fair value or when measurement at fair value through profit or loss reduces or eliminates an accounting mismatch. AFS is a residual category.	Debt instruments are measured at amortized cost or FVOCI based on their contractual terms and the business models under which they are held (Hold to Collect, Hold to Collect and Sell, other). The concept of separated derivatives does not apply to financial assets. Therefore, the fair value option applies where it would reduce or eliminate an accounting mismatch. Measurement at fair value through profit or loss is a residual category. Equity instruments are measured at fair value through profit or loss until the option is exercised for measurement at FVOCI. With reference to the contractual terms, the standard introduces the SPPI test to assess whether the instrument's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.
Presentation	The AFS reserve for debt instruments and equity instruments accumulated in other comprehensive income is recycled through profit or loss.	The AFS reserve for debt instruments accumulated in other comprehensive income is reclassified through profit or loss. Gains and losses on equity instruments measured through FVOCI accumulated in other comprehensive income are not recycled through profit or loss.

Transition to IFRS 15: Revenue from contracts with customers

IFRS 15 applies to all contracts with customers with the exception of lease contracts, insurance contracts and financial instruments that fall within the scope of other specific international accounting standards.

The standard prescribes the rules for the recognition of revenue, introducing an approach that provides for their recognition when control over the promised goods or services is transferred to the customer and the recognition of revenue in an amount that reflects the consideration to which the company expects to be entitled in exchange for the goods or services.

IFRS 15 provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract with the customer;
- identification of the performance obligations;
- determination of the transaction price;
- allocation of the transaction price to performance obligations;
- recognition of revenue on the basis of satisfaction of the performance obligation ("at a point in time" or "over time").

The standard also introduces new rules for recognizing costs incurred in obtaining and performing a contract, allowing them to be recognized as an asset if the entity expects to recover them with the execution of the contract.

The Iccrea Group has conducted a preliminary assessment of contracts with major customers using gap analysis with respect to the revenue recognition rules provided for in the old IAS 18 in order to identify the areas impacted by IFRS 15. The analysis found that in general the accounting treatment of the main forms of revenue from contracts with customers is already in line with the provisions of the new standard and, accordingly, the transition to the IFRS 15 did not have a material impact on the accounts. The main effect was primarily an increase in the disclosure provided on the nature, amount, timing and level of uncertainty of revenue as well as on the cash flows from contracts with customers. More details will be provided in the 2018 Annual Report.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the consolidated financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the “SPPI test”).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- “Hold to collect”: this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity;
- “Hold to collect and sell”: this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

The business model does not depend on management’s intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as “worst case” or “stress case” scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
  - on the basis of the staging indicator for the loan portfolio.
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Iccrea Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that

would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a "benchmark test", an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is "not genuine", it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Iccrea Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 – Financial assets measured at fair value through profit or loss

CLASSIFICATION

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an "other" business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the “host contract”). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

RECOGNITION

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trade date. Financial assets are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

MEASUREMENT

Financial assets measured at fair value through profit or loss are measured at fair value following initial recognition. The effects of the application of this treatment are recognized through profit or loss.

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

DERECOGNITION

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

RECOGNITION OF INCOME COMPONENTS

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized through profit or loss when the right to receive payment is established.

2 – Financial assets measured at fair value through other comprehensive income

CLASSIFICATION

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income.

Specifically, the item includes:

- loans and debt securities held with a "hold to collect and sell" business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group's commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

Reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

RECOGNITION

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

Financial assets are initially recognized at fair value, which is generally the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss. The initial recognition value includes direct transaction costs or revenue determinable at the recognition date, even if settled at a later time.

MEASUREMENT

Following initial recognition, financial assets measured at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the value corresponding to the amortized cost recognized in the income statement. Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized or they incur an impairment loss. Upon disposal or the recognition of an impairment loss, the cumulative gain or loss recognized in the equity reserve is reversed to profit or loss.

Equity instruments classified in this category are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for performing instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized. The amortized cost of assets measured at fair value through other comprehensive income is recognized through profit or loss. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

In addition to recognizing impairment losses, the cumulative gains and losses recognized in other comprehensive income are recognized through the income statement under item 100 ("Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income") at the time the asset is disposed of. Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 – Financial assets measured at amortized cost

CLASSIFICATION

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

RECOGNITION

Financial assets are initially recognized at the settlement date for debt securities and at the disbursement date for loans. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and

revenue directly attributable to the transaction and determinable from the inception of the transaction, even if settled at a later time. The initially recognized amount does not include costs to be reimbursed by the debtor or that can be characterized as normal administrative overhead costs.

The initial recognition amount of loans disbursed at non-market conditions is equal to the fair value of the loans, determined using valuation techniques. The difference between the fair value and the amount disbursed or the subscription price is recognized through profit or loss.

Securities repurchase transactions are recognized as funding or lending transactions. Transactions involving a spot sale and a forward repurchase are recognized as payables in the amount received spot, while those involving a spot purchase and a forward sale are recognized as receivables in the amount paid spot.

Transactions with banks through correspondent accounts are recognized at the time of settlement and, therefore, these accounts are adjusted for all non-liquid items regarding bills and documents received or sent registered as ‘subject to collection’ or after actual collection.

Where, in the event of unusual circumstances, the assets are recognized in this category following reclassification form financial assets available for sale or from financial assets held for trading, the fair value of the assets at the date of reclassification shall be deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets are measured at amortized cost, using the effective interest rate method. The amortized cost equals the amount at which a financial asset is measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction (directly or through the use of a provision) due to impairment or non-recoverability.

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

Amortized cost is not used for very-short-term loans, loans without a specified maturity or revocable loans, for which the impact of this method can be considered not material. These positions are measured at cost.

The measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

1. stage 1 and 2 including performing financial assets;
2. stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer “significant” in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses.

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9.

The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as "impaired") and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations.

Measurement of the financial assets takes account of the best estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

Transferred financial assets are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial". In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
  - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial

renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;

  - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;

- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

RECOGNITION OF INCOME COMPONENTS

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, as well as through the process of amortization of the difference between the carrying amount and the amount repayable at maturity.

4 – Hedging

The Iccrea Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

CLASSIFICATION

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items "hedging derivatives" among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

RECOGNITION

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules.

Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset with the change in the fair value of the hedging instrument: this offsetting is effected by recognizing the changes in value through profit or loss, both for the hedged item (as regards changes produced by the underlying risk factor) and for the hedging instrument; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge's expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

5 – Equity investments

CLASSIFICATION

The item includes equity investments in subsidiaries, associates and joint ventures.

IFRS 10 establishes that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and must also be exposed to the variability of the returns deriving from that power.

Under the standard, the requirement of control is met when an investor simultaneously has:

- the power to direct the relevant activities of the entity;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power over the investee to affect the amount of the investor's returns (link between power and returns).

Joint control is the contractually agreed sharing of control of an arrangement. Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control. Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

In determining the nature of the equity interest, only elements present at the level of the separate financial statements are considered (percentage holding, actual and potential voting rights, situations of de facto significant influence). Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

RECOGNITION

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

MEASUREMENT

Investments in subsidiaries, associates and joint ventures are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net

assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

DERECOGNITION

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

RECOGNITION OF INCOME COMPONENTS

Dividends received from equity investments measured at cost are recognized in profit or loss when the right to receive the payment is established. Impairment losses on subsidiaries, associates and joint arrangements measured at cost are recognized in profit or loss. If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss.

6 – Property and equipment

CLASSIFICATION

Property and equipment includes land, buildings used in operations, investment property, technical plant, furniture and equipment. This item includes assets that are used in providing goods and services, rented to third parties, or used for administrative purposes for a period of more than one year. The item also includes assets held under finance leases, although legal ownership remains with the lessor.

RECOGNITION

Property and equipment is recognized at cost, which in includes all incidental expenses directly attributable to purchasing and placing the asset in service.

Expenses subsequently incurred increase the carrying amount of the asset or are recognized as separate assets if it is likely that the future economic benefits will exceed initial estimates and the costs can be reliability calculated.

All other subsequent expenses (e.g. ordinary maintenance costs) are recognized in the income statement in the year incurred.

This item also includes assets held under finance leases for which substantially all the risks and rewards of ownership have been assumed. These assets are initially recognized at a value equal to the lesser of the fair value and the present value of the minimum payments provided for under finance lease. This amount is subsequently subject to depreciation.

MEASUREMENT

Property and equipment, used in operations is measured at cost less depreciation and impairment. Depreciation is determined systematically over the remaining useful life of the asset.

The depreciable value is represented by the cost of the assets since the residual value at the end of the depreciation process is considered negligible. Buildings are depreciated at a rate of 3% per year, deemed to appropriately represent the deterioration of the assets over time from their use, taking into account extraordinary maintenance costs, which increase the value of the asset. Land, whether purchased individually or incorporated into the value of a building, is not depreciated.

Investment property under IAS 40, refers to real estate (owned or held through a finance lease) for the purposes of receiving rental income and/or for the appreciation of the invested capital. The fair value model is used for such assets.

DERECOGNITION

Property and equipment is derecognized when disposed of or when permanently withdrawn from use and no future benefits are expected from its disposal.

RECOGNITION OF INCOME COMPONENTS

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

7 – Intangible assets

CLASSIFICATION

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

RECOGNITION

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

MEASUREMENT

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the reporting date.

DERECOGNITION

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

RECOGNITION OF INCOME COMPONENTS

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, the asset is tested for impairment. Any difference between its carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

8 – Non-current assets and liabilities and disposal groups held for sale

CLASSIFICATION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

RECOGNITION

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

DERECOGNITION

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 – Current and deferred taxation

CLASSIFICATION

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years.

Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of Iccrea Banca SpA and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, “taxable temporary differences” are those that in future periods will give rise to taxable amounts and “deductible temporary differences” are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

Where the deferred tax assets and liabilities regard items that impact profit or loss, that effect is recognized under income taxes.

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments available for sale or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be “taxed in the event of any use” is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed “only in the event of distribution” is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

RECOGNITION OF INCOME COMPONENTS

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

RECOGNITION AND CLASSIFICATION

Provisions for risks and charges are recognized in the income statement and reported under liabilities on the balance sheet in relation to a present legal or constructive obligation resulting from a past event for which performance of the obligation is likely to be onerous and the loss associated with the liability can be reliably estimated.

The amount recognized is the best estimate of the amount required to discharge the obligation or to transfer it to third parties as of the close of the period.

When the financial impact of the passage of time is significant and the dates of payment of the obligation can be estimated reliably, the provision is discounted at market rates as of the reporting date.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

The amounts recognized are reviewed at every reporting date and are adjusted to reflect the best estimate of the expense required to fulfil the obligations existing at the close of the period. The impact of the passage of time and that of changes in interest rates are reported in the income statement under net provisions for the period.

DERECOGNITION

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

11 – Financial liabilities measured at amortized cost

CLASSIFICATION

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

RECOGNITION

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

DERECOGNITION

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

12 – Financial liabilities held for trading

CLASSIFICATION

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

RECOGNITION

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss..

MEASUREMENT

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the section on measuring financial assets held for trading for information on determining the fair value.

DERECOGNITION

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

13 – Financial liabilities designated as at fair value

CLASSIFICATION

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch or if they contain an embedded derivative.

RECOGNITION

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

After initial recognition, financial liabilities reported under this item are measured at fair value in accordance with the following rules:

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity);
- all other changes in fair value shall be recognized through profit or loss.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see the section on the measurement of financial liabilities held for trading.

DERECOGNITION

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

RECOGNITION OF INCOME COMPONENTS

The result of measurement is recognized through profit or loss.

14 – Foreign currency transactions

RECOGNITION

Transactions in a foreign currency are initially recognized in the functional currency by translating the amount in the foreign currency into the functional currency at the exchange rate prevailing on the date of the transaction.

MEASUREMENT

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

RECOGNITION OF INCOME COMPONENTS

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 "Net gain (loss) on trading activities". If the asset is classified as available for sale, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised.

- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue are recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

The recognition of certain types of revenue has become a significant issue since the adoption, with effect from January 2018, of IFRS 15 - Revenue from contracts with customers, which was endorsed with the publication of Regulation no. 1905/2016. Subsequently, in 2017, Regulation 1987/2017 was approved, introducing changes designed to clarify certain aspects and providing a number of operational simplifications of use during the transition phase.

The entry into force of the standard entailed the repeal of IAS 18 - Revenue and IAS 11 – Construction contracts, as well as the related interpretations.

The main new features are:

- the creation of a single framework for the recognition of revenue covering both the sale of goods and the provision of services;
- the adoption of a step approach;
- the introduction of a mechanism that enables the allocation of the total price of the transaction to the individual performance obligations (sale of goods and/or provision of services) included in the sale contract.

The standard introduces the following steps in the recognition of revenue:

1. identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
2. identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
3. determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
4. allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. IFRS 15 specifies that the assessment must be carried out as from the start date of the contract (the inception date);
5. recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets” in accordance with Bank of Italy instructions n. 262 – 4th update of December 15, 2015. The assets are amortized over a period no greater than the term of the lease and the amortization charges are reported under other operating expenses.

DETERMINATION OF IMPAIRMENT

FINANCIAL ASSETS

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at

the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;
- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
    - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
    - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, "satellite models" are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. Based on the estimates, the multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing

loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of "impaired loans" in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the "ordinary" scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

DEBT SECURITIES

With regard to the debt securities, the methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

EQUITY SECURITIES

Equity securities do not undergo impairment testing.

OTHER NON-FINANCIAL ASSETS

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used

for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

DETERMINATION OF FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined on the basis of prices on financial markets in the case of instruments quoted on active markets and through the use of internal valuation techniques for other financial instruments. A financial instrument is considered to be quoted on an active market if the quoted prices, which reflect normal market operations, are readily and ordinarily available from an exchange, broker, intermediary, sector firm, pricing service, authorized entity, regulatory agency or multilateral trading facility, and if those prices reflect the actual and regular operation of the market over a normal reference period.

Accordingly, the fair value for an asset held or a liability to be issued is the current price offered by the purchaser (bid), while for an asset to be purchased or a liability held it is the current price requested by the seller (ask). In the absence of a quoted price on an active market or a regularly functioning market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently low, the fair value of financial instruments is mainly determined using valuation techniques that seek to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques consider:

- prices in recent market transactions in similar instruments, if available, corrected appropriately to reflect changes in market conditions and technical differences between the instrument being valued and the similar instrument (the 'comparable approach');
- valuation models commonly used by market participants that have been demonstrated to provide reliable estimates over time of prices obtained in current market conditions.

Financial instruments are assigned to one of three levels that reflect the characteristics and significance of the inputs used in determining fair value:

- **Level 1**: unadjusted prices on an active market are available for the assets and liabilities involved;
- **Level 2**: prices on an active market for similar assets and liabilities or prices calculated using valuation techniques in which all significant inputs are based on parameters that are directly or indirectly observable on the market;
- **Level 3**: prices determined on the basis of valuation models that use significant unobservable inputs in the calculation.

The choice between these methods is not optional, and the valuation techniques adopted should maximize the use of observable factors, relying on subjective parameters as little as possible.

In ranked order, in the absence of an active market (effective market quotes – Level 1), the fair value of assets and liabilities shall be calculated using valuation techniques that employ parameters that are directly or indirectly observable other than quoted prices for the financial instrument (comparable approach – Level 2) or, in the absence of such parameters or in the presence of inputs drawn only partially from observable market parameters, fair value shall be calculated on the basis of valuation techniques commonly used by the financial community, which therefore allow more discretionary assessments (mark-to-model approach – Level 3).

The following are considered to be quoted on an active market (**Level 1**):

- listed shares;
- government securities quoted on a regulated market;
- bonds with significant contributed prices;
- listed funds or funds whose net asset value is calculated on a daily basis;
- derivatives contracts for which prices on an active market are available (listed derivatives).

The price used for financial instruments quoted on active markets is the current price offered for financial assets (bid) and the current price requested (ask) for financial liabilities, on the main trading market, at the close of the reporting period. Nevertheless, in the case of financial instruments for which the bid-ask spread is not significant or for financial assets and liabilities whose characteristics give rise to offsetting positions in market risk, a mid-market price is used (once again as at the last day of the reporting period) rather than the bid or ask price.

In the absence of prices observable on active markets, the fair value of financial instruments is determined through two approaches:

- the comparable approach (Level 2), which assumes the presence of quoted market prices on inactive markets for identical or similar instruments in terms of risk-return, maturity and other trading conditions. In particular, when the current market prices of other highly comparable instruments (on the basis of the country or sector to which they belong, the rating, the maturity or the seniority of the securities) are available, the Level 2 value of the instrument corresponds to the quoted price of the similar instrument, adjusted if necessary for factors observable on the market.
- the model valuation approach (Level 2 or Level 3) is based on the use of valuation models that maximize the use of observable market variables.

The most common valuation techniques used are:

- discounted cash flow models
- option pricing models.

For derivatives, in view of their variety and complexity, a systematic reference framework has been developed that represents the common elements (calculation algorithms, valuation models, market data used, underlying assumptions of the model) on which the valuation of each category of derivative is based.

Derivatives on interest rates, exchange rates, equities, inflation and commodities not traded on regulated markets are over-the-counter instruments. In other words, they are negotiated bilaterally with market counterparties and their fair value is determined with specific pricing models that use inputs (such as yield curves, exchange rates and volatility) observed on the market.

For structured credit products and ABSs, if reliable prices are not available, valuation techniques using market-derived parameters are employed.

To determine the fair value of certain types of financial instrument for which observable market inputs are not available and for which market activity is limited or absent, it is necessary to use valuation techniques that employ inputs that are not directly observable in the market and therefore require estimates and assumptions on the part of the person measuring the instrument (Level 3). More specifically, the mark-to-model approach is applied to all financial instruments not quoted on an active market when:

- even if observable inputs are available, it is necessary to make significant adjustments to such inputs that are based on unobservable inputs;
- the estimation is based on assumptions specific to the Group concerning future cash flows and the adjustment for the discount rate risk.

In any event, the goal is to obtain a value for the instrument that is consistent with the assumptions that market participants would use in forming a price. Such assumptions also regard the risk associated with a given valuation technique and/or the inputs employed. IFRS 13 requires the adoption of reasonable assumptions without having to undertake exhaustive searches to find such information.

The valuation technique used for a financial instrument is adopted consistently over time and is modified only in response to material changes in market conditions or the condition of the issuer of the financial instrument.

For the purpose of reporting for financial instruments at fair value, the above hierarchy adopted in determining fair value is used consistently for the allocation of the portfolio to the fair value input levels (see section A.3 of Part A).

Additional information on the modeling used by the Group in determining fair value is provided in section E of these notes.

The entire system of rules and responsibilities for the valuation of the Bank's financial instruments is set out in the Fair Value Policy, which specifies the main components of the entire methodological framework in terms of:

- definition of the roles and responsibilities of the company bodies and functions involved;
- classification of the financial instruments;
- the rules for classification of financial instruments within the fair value hierarchy provided for under IFRS 7 and IFRS 13;
- the valuation techniques and methods used for financial instruments;
- processes for the management and control of the valuation of financial instruments;
- the hedging policy for financial instruments;
- reporting flows.

NON-FINANCIAL ASSETS

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under “Fee and commission income”, taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under “value adjustments”. Writedowns for impairment of guarantees are reported under “Provisions for risk and charges”.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

A. 3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

IFRS 13 introduces a single guideline for all fair valuation measurements. The new standard does not change the cases in which fair value must be used but rather provides a guide for measuring the fair value of financial instruments and non-financial assets and liabilities when the use of fair value is required or permitted by an international accounting standard.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the “exit price”).

A.4 – FAIR VALUE DISCLOSURE

Qualitative disclosures

This section provides the disclosures on the fair value of financial instruments as requested under the new IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

For financial instruments measured at fair value, the Iccrea Banking Group has adopted a Group "Fair Value Policy" that assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

- mark to market: a valuation approach using inputs classified as Level 1 in the fair value hierarchy;
- the comparable approach: a valuation approach based on the use of the prices of instruments similar to the one undergoing valuation, which are classified as Level 2 in the fair value hierarchy;
- mark to model: a valuation approach based on the use of pricing models whose inputs are classified as Level 2 (in the case of the exclusive use of market observable inputs) or Level 3 (in the case of the use of at least one significant unobservable input) in the fair value hierarchy.

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.

The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable approach

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;

- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

Mark to Model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of **market inputs**. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may inputs that are **not observable on the market** be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The Bank uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Normal Forward Model (Bachelier Model) with the exception of Burmuda swaptions and ratchet options, for which the One Factor Trinomial Hull-White approach is used. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;

- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

In particular, the Bank has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

For transactions in derivatives, the Bank has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;
- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 Valuation processes and sensitivity

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the

fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Bank conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 Fair Value hierarchy

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- **Level 1: unadjusted quoted prices on an active market**. Fair value is drawn directly from quoted prices observed on active markets;
- **Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices)**. Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;
- **Level 3: inputs that are not observable on the market**. Fair value is determined using valuation techniques that use significant unobservable inputs.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet). The Group has specified the following approaches for measuring fair value in these cases:

- **cash and cash equivalents**: book value approximates fair value;
- **loans with a contractually specified maturity** (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- **intercompany receivables** (classified under L2): discounted cash flow model;
- **bad debts and substandard positions** valued on an individual basis: book value approximates fair value;
- **securities issued**:
- classified L1: price in relevant market;
- classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- **financial liabilities**: discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 Other information

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Bank's financial statements.

Quantitative disclosures

A.4.5 FAIR VALUE HIERARCHY

A.4.5.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	30/6/2018		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	100,581	937,849	97,493
a) financial assets held for trading	56,068	524,949	241
b) financial assets measured at fair value	-	-	-
c) other financial assets mandatorily measured at fair value	44,513	412,900	97,252
2. Financial assets measured at fair value through comprehensive income	275,971	15,187	39,439
3. Hedging derivatives	-	6,572	-
4. Property and equipment	-	-	-
5. Intangible assets	-	-	-
Total	**376,552**	**959,608**	**136,932**
1. Financial liabilities held for trading	5,288	519,650	-
2. Financial liabilities designated as at fair value	-	-	-
3. Hedging derivatives	-	77,652	-
Total	**5,288**	**597,302**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

As required under IFRS 13 paragraphs 72-90, the Bank provides appropriate disclosure in the table, grouping financial assets into the three levels of the fair value hierarchy on the basis of the characteristics and significance of the inputs used in the measurement process. The levels are:

- **Level 1:** unadjusted quoted prices for the financial assets and liabilities on an active market;
- **Level 2:** inputs other than the quoted prices considered for Level 1 that are observable on the market either directly or indirectly;
- **Level 3:** inputs that are not observable on the market.

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.
In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment involved a decrease of about €19 thousand, while the Debt Value Adjustment did not give rise to any changes.

A.4.5.4 ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	30/6/2018			
	CA	L1	L2	L3
1. Financial assets measured at amortized cost	39,802,387	10,563,742	6,665,070	20,688,614
2. Investment property				
3. Non-current assets and disposal groups held for sale				
Total	**39,802,387**	**10,563,742**	**6,665,070**	**20,688,614**
1. Financial liabilities measured at amortized cost	40,452,959	726,004	357,691	41,479,541
2. Liabilities associated with assets held for sale				
Total	**40,452,959**	**726,004**	**357,691**	**41,479,541**

Key:
CA =Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 – DISCLOSURE ON "DAY ONE PROFIT/LOSS"

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IFRS9 (paragraphs B.5.1.2 A (b)).

PART B - Information on the balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: composition

	Total 30/6/2018
a) Cash	73,341
b) Demand deposits with central banks	-
Total	**73,341**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 Financial assets held for trading: composition by type

	Total 30/6/2018		
	LEVEL 1	LEVEL 2	LEVEL 3
A. On-balance-sheet assets			
1. Debt securities	**52,768**	**59**	**-**
1.1 structured securities	1,249	-	-
1.2 other debt securities	51,519	59	-
2. Equity securities	**653**	**-**	**241**
3. Units in collective investment undertakings	**1,513**	**-**	**-**
4. Loans	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	-
Total (A)	**54,934**	**59**	**241**
B. Derivatives			
1. Financial derivatives	**1,134**	**524,890**	**-**
1.1 trading	1,134	524,890	-
1.2 associated with fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	**-**	**-**	**-**
2.1 trading	-	-	-
2.2 associated with fair value option	-	-	-
2.3 other	-	-	-
Total (B)	**1,134**	**524,890**	**-**
Total (A+B)	**56,068**	**524,949**	**241**

2.3 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

The table has not been completed because there were no such positions as of the balance sheet date.

2.5 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2018		
	L1	L2	L3
1. Debt securities	**26,055**	**30,688**	**-**
1.1 structured securities	-	14,429	-
1.2 other debt securities	26,055	16,259	-
2. Equity securities	**2,203**	**-**	**24,127**
3. Units in collective investment undertakings	**16,255**	**382,212**	**11,705**
4. Loans	**-**	**-**	**61,420**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	61,420
Total	**44,513**	**412,900**	**97,252**

"Units in collective investment undertakings" includes, among others, the units of the closed-end investment funds "Securis Real Estate" managed by Investire SGR, in the amounts of:

Fondo Securis Real Estate III	€76,250 thousand
Fondo Securis Real Estate II	€142,009 thousand
Fondo Securis Real Estate I	€163,954 thousand

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 30/6/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**269,745**	**15,187**	**-**
1.1 structured securities	-	-	-
1.2 other debt securities	269,745	15,187	-
2. Equity securities	**6,226**	**-**	**39,439**
3. Loans	**-**	**-**	**-**
Total	**275,971**	**15,187**	**39,439**

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			Total partial writeoffs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	244,909	-	40,024	-	82	310	-	-
Loans	-	-	-	-	-	-	-	-
Total	**244,909**	**-**	**40,024**	**-**	**82**	**310**	**-**	**X**
of which: financial assets purchased or originated credit-impaired	X	X	-	-	X	-	-	-

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST – ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/6/2018					
	Carrying amount			Fair value		
	Stage 1 and stage 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**446,097**	**-**	**-**	**-**	**-**	**-**
1. Fixed-term deposits	-	-	-	X	X	X
2. Reserve requirements	446,097	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Due from banks	**24,145,229**	**-**	**-**	**-**	**-**	**-**
1. Financing	19,529,478	-	-	-	-	-
1.1. Current accounts and demand deposits	567,815	-	-	X	X	X
1.2. Fixed-term deposits	75,301	-	-	X	X	X
1.3. Other financing:	18,886,362	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X
- Other	18,886,362	-	-	X	X	X
2. Debt securities	4,615,751	-	-	-	-	-
2.1 Structured securities	36,747	-	-	-	-	-
2.2 Other debt securities	4,579,004	-	-	-	-	-
Total	**24,591,326**	**-**	**-**	**-**	**5,139,597**	**19,058,770**

Amounts due from banks are reported net of writedowns for impairment.

The fair value is obtained using discounted cash flow analysis.

The sub-item "reserve requirement" includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

Loans connected with pool collateral operations amount to €17,212 million of which €9,919 million granted within the framework of the TLTRO II and included under letter "B", item "Other financing – Other". Securities pledged as collateral amount to €18,824 million, net of the haircut applied to the various types of security.

In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At June 30, loans received from Iccrea BancaImpresa securing the collateral pool amounted to €2,390 million, which net of the haircut decreased to about €1,053 million.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/6/2018					
	Carrying amount			Fair value		
	Stage 1 and stage 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**4,366,537**	**15,440**	**-**	**-**	**-**	**-**
1.1. Current accounts	132,141	195	-	X	X	X
1.2. Repurchase agreements	1,630,894	-	-	X	X	X
1.3. Medium/long term loans	88,986	15,110	-	X	X	X
1.4. Credit cards, personal loans	-	-	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X
1.7. Other loans	2,514,516	135	-	X	X	X
2. Debt securities	**10,829,084**	**-**	**-**	**-**	**-**	**-**
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	10,829,084	-	-	-	-	-
Total	**15,195,621**	**15,440**	**-**	**10,563,742**	**1,525,473**	**1,629,844**

4.5 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: GROSS AMOUNT AND TOTAL WRITEOFFS

		Gross amount				Total writeoffs			Total and partial writeoffs*
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		15,441,139	-	8,600	-	1,420	3,483	-	-
Loans		24,186,042	1,498,342	159,910	56,940	2,807	1,100	41,501	2,645
Total	**30/6/2018**	**39,627,182**	**1,498,342**	**168,510**	**56,940**	**4,227**	**4,583**	**41,501**	**2,645**
of which: financial assets purchased or originated credit-impaired		X	X	-	-	X	-	-	-

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

5.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND LEVEL OF INPUT

	FV 30/6/2018			NV
	L1	L2	L3	30/6/2018
A. Financial derivatives				
1. Fair value	-	4,212	-	153,577
2. Cash flows	-	2,360	-	34,311
3. Investments in foreign operations	-	-	-	-
B. Credit derivatives				
1. Fair value	-	-	-	-
2. Cash flows	-	-	-	-
Total	**-**	**6,572**	**-**	**187,888**

Key
FV=Fair value
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

5.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair Value							Cash flows		Investments in foreign operations
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans	commodities	other				
1. Financial assets measured at fair value through other	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	895	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**895**	**-**	**-**	**-**
1. Financial liabilities	3,317	-	-	-	-	-	X	2,360	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**3,317**	**-**	**-**	**-**	**-**	**-**	**-**	**2,360**	**-**	**X**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY - ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/6/2018
1. Positive adjustments	**646**
1.1 of specific portfolios:	-
a) financial assets measured at amortized cost	-
b) financial assets measured at fair value through comprehensive income	-
1.2 comprehensive	646
2. Negative adjustments	**934**
2.1 of specific portfolios:	-
a) financial assets measured at amortized cost	-
b) financial assets measured at fair value through comprehensive income	-
2.2 comprehensive	934
Total	**1,580**

SECTION 7 – EQUITY INVESTMENTS - ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	REGISTERED OFFICE	OPERATIONAL HEADQUARTERS	% HOLDING	% OF VOTES
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	99.33	99.33
BCC Beni Immobili S.r.l.	Milan	Rome	100.00	100.00
BCC Retail scarl	Milan	Milan	39.30	39.30
Ventis S.r.l.	Milan	Milan	95.00	95.00
Bcc Sistemi Informatici	Milan	Milan	98.53	98.53
BCC Risparmio e Previdenza	Milan	Milan	75.00	75.00
BCC Gestione Crediti	Rome	Rome	55.00	55.00
BCC Solutions	Rome	Rome	100.00	100.00
BCC Credito Consumo	Rome	Udine	96.00	96.00
Banca Sviluppo	Rome	Rome	68.07	68.07
QF Securfondo	Rome	Milan	54.40	54.40
C. Companies subject to significant influence				
Satispay S.p.A.	Milan	Milan	15.72	15.72
M-Facility S.p.A.	Rome	Rome	37.50	37.50
Hi-Mtf S.p.A.	Milan	Milan	25.00	25.00
BCC Vita S.p.A.	Milan	Milan	49.00	49.00
BCC Assicurazioni	Milan	Milan	49.00	49.00
Accademia BCC S.c.p.A.	Rome	Rome	26.05	26.05

Equity investments are ancillary companies held to pursue the corporate purpose. They are represented by unlisted securities with the exception of the unit in the “Securfondo” closed-end real-estate investment fund.

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	CARRYING AMOUNT	FAIR VALUE	DIVIDENDS RECEIVED
A. Subsidiaries			
Iccrea BancaImpresa S.p.A.	800,421	-	13,777
BCC Beni Immobili s.r.l.	18,314	-	
BCC Retail scarl	393	-	
Ventis S.r.l.	4,920	-	
Bcc Sistemi Informatici	45,025	-	
BCC Risparmio e Previdenza	22,474	-	13,515
BCC Gestione Crediti	1,411	-	1,450
BCC Solutions	75,700	-	2,003
BCC Credito Consumo	55,041	-	9,600
Banca Sviluppo	101,052	-	
QF Securfondo	14,268	-	
C. Companies subject to significant influence			
Satispay S.p.A.	6,112	-	
M-Facility S.p.A.	199		
Hi-Mtf S.p.A.	1,250	-	
BCC Vita S.p.A.	101,430	-	
BCC Assicurazioni	8,080	-	
Accademia BCC S.c.p.A.	208	-	
TOTAL	**1,256,298**	**-**	**40,345**

SECTION 8 - PROPERTY AND EQUIPMENT - ITEM 80

8.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/6/2018
1. Owned assets	**12,285**
a) land	-
b) building	-
c) movables	189
d) electrical plants	11,575
e) other	521
2. Assets acquired under finance leases	**-**
a) land	-
b) building	-
c) movables	-
d) electrical plants	-
e) other	-
Total	**12,285**
of which: obtained through enforcement of guarantees received	-

SECTION 9 – INTANGIBLE ASSETS - ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/6/2018	
	Finite life	Indefinite life
A.1 Goodwill		**-**
A.2 Other intangible assets	**10,239**	**-**
A.2.1 Assets carried at cost:	10,239	-
a) internally generated intangible assets	-	-
b) other assets	10,239	-
A.2.2 Assets designated at fair value:	-	-
a) internally generated intangible assets	-	-
b) other assets	-	-
Total	**10,239**	**-**

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	TOTAL AT 30/06/2018
A. Gross deferred tax assets	**26,496**
A1. Loans (including securitizations)	2,562
A2. Other financial instruments	632
A3. Goodwill	-
A4. Deferred charges	-
A5 Property and equipment	-
A6. Provisions for risks and charges	3,125
A7. Entertainment expenses	-
A8. Personnel costs	709
A9. Tax losses	16,315
A10. Unused tax credits to deduct	3,153
A11. Other	-
B. Offsetting with deferred tax liabilities	**594**
C. Net deferred tax assets	**25,902**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	TOTAL AT 30/06/2018
A. Gross deferred tax liabilities	**594**
A1. Capital gains tax in installments	594
A2. Goodwill	-
A3. Property and equipment	-
A4. Financial instruments	-
A5. Personnel costs	-
A6. Other	-
B. Offsetting with deferred tax assets	**594**
C. Net deferred tax liabilities	**-**

DEFERRED TAXES NOT RECOGNIZED

The amount and changes in taxable timing differences (and related components) that do not meet requirements for recognition as deferred tax liabilities as it is unlikely that they will have to be paid include.

- deferred tax liabilities were not recognized in respect of the revaluation reserve established pursuant to Law 342/2000 (net of the special capital gains tax already paid €11,227 thousand), Law 413/1991 and Law 196/1983. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €9.7 million.

10.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	Total 30/6/2018
1. Opening balance	**25,767**
2. Increases	**1,042**
2.1 Deferred tax assets recognized during the period	1,042
a) in respect of previous period	-
b) due to change in accounting policies	-
c) writebacks	-
d) other	1,042
2.2 New taxes or increases in tax rates	-
2.3 Other increases	-
3. Decreases	**1,061**
3.1 Deferred tax assets derecognized during the period	786
a) reversals	786
b) writedowns for supervening non-recoverability	-
c) due to changes in accounting policies	-
d) other	-
3.2 Reduction in tax rates	-
3.3 Other decreases	156
transformation in tax credits pursuant to Law 214/2011	156
other	118
4. Closing balance	**25,748**

10.3BIS CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 30/6/2018
1. Opening balance	**2,719**
2. Increases	**-**
- of which arising from business combinations	-
3. Decreases	**156**
3.1 Reversals	156
3.2 Conversion into tax credits	-
a) arising from losses for the year	-
b) arising from tax losses	-
3.3 Other decreases	-
4. Closing balance	**2,563**

10.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 30/6/2018
1. Opening balance	**1,145**
2. Increases	**-**
2.1 Deferred tax liabilities recognized during the period	-
a) in respect of previous period	-
b) due to change in accounting policies	-
c) other	-
2.2 New taxes or increases in tax rates	-
2.3 Other increases	
3. Decreases	**572**
3.1 Deferred tax liabilities derecognized during the period	572
a) reversals	572
b) due to changes in accounting policies	-
c) other	-
3.2 Reduction in tax rates	-
3.3 Other decreases:	-
4. Closing balance	**572**

10.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 30/6/2018
1. Opening balance	**1,861**
2. Increases	**-**
2.1 Deferred tax assets recognized during the period	-
a) in respect of previous periods	-
b) due to change in accounting policies	-
c) other	-
2.2 New taxes or increases in tax rates	-
2.3 Other increases	-
- of which business combinations	-
3. Decreases	-
3.1 Deferred tax assets derecognized during the period	-
a) reversals	1,113
b) writedowns for supervening non-recoverability	-
c) due to changes in accounting policies	-
d) other	-
3.2 Reduction in tax rates	-
3.3 Other decreases	-
- of which business combinations	-
4. Closing balance	**748**

10.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 30/6/2018
1. Opening balance	**4,634**
2. Increases	**-**
2.1 Deferred tax liabilities recognized during the period	-
a) in respect of previous periods	-
b) due to change in accounting policies	-
c) other	-
2.2 New taxes or increases in tax rates	-
2.3 Other increases	-
3. Decreases	**4,612**
3.1 Deferred tax liabilities derecognized during the period	4,612
a) reversals	4,612
b) due to change in accounting policies	-
c) other	-
3.2 Reduction in tax rates	-
3.3 Other decreases	-
4. Closing balance	**22**

10.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2013, 2014, 2015 and 2016 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- on November 4, 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

This item reports “individual assets” and individual disposal groups held for sale referred to by IFRS 5.

11.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

The table has not been completed because there were no such positions as of the balance sheet date.

11.2 OTHER INFORMATION

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 12 - OTHER ASSETS - ITEM 120

12.1 OTHER ASSETS: COMPOSITION

	Total 30/6/2018
- Duty stamps and other similar	-
- Gold, silver and precious metals	-
- Receivables for future premiums on derivatives	15,828
- Fees and commissions and interest to be received	28,434
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	43,646
- Receivables from social security institutions	-
- Tax credits	-
- Receivables from employees	-
- Corporate finance transactions (acquisitions)	-
- Items in transit between branches and items being processed	39,086
- Financial assets in respect of loans granted for a specific deal	-
- Accrued income not attributable to separate line item	-
- Prepaid expense not attributable to separate line item	27,223
- Leasehold improvements	-
- Tax consolidation mechanism	6,287
- Other (security deposits, assets not attributable to other items)	23,065
- Consolidation adjustments	-
Total	**183,570**

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – ITEM 10

1.1 Financial liabilities measured at amortized cost - due to banks: composition by type

	Total 30/6/2018			
	CA	Fair Value		
		L1	L2	L3
1. Due to central banks	**13,794,065**	**X**	**X**	**X**
2. Due to banks	**5,734,212**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	2,812,118	X	X	X
2.2 Fixed-term deposits	2,876,935	X	X	X
2.3 Loans	43,249	X	X	X
2.3.1 Repurchase agreements	35,248	X	X	X
2.3.2 Other	8,001	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X
2.5 Other payables	1,910	X	X	X
Total	**19,528,277**	**-**	**289,629**	**19,126,516**

The item "due to central banks" represents financing from the ECB.

The sub-item "Fixed-term deposits" also includes deposits received from the mutual banks amounting to around €782 million for indirect compliance with the reserve requirement.

The fair value is obtained using discounted cash flow techniques.

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/6/2018			
	CA	Fair Value		
		L1	L2	L3
1. Current accounts and demand deposits	**493,736**	**X**	**X**	**X**
2. Fixed-term deposits	**-**	**X**	**X**	**X**
3. Loans	**14,860,607**	**X**	**X**	**X**
3.1 Repurchase agreements	14,860,607	X	X	X
3.2 Other	-	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	**-**	**X**	**X**	**X**
5. Other payables	**456,744**	**X**	**X**	**X**
Total	**15,811,087**	**698,514**	**57,189**	**22,353,026**

The sub-item "Repurchase agreements" is composed entirely of transactions with the Clearing and Guarantee Fund. The item "Other payables" comprises bankers' drafts issued but not yet presented for settlement and sundry other payables.
The fair value is obtained using discounted cash flow techniques.

1.3 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - SECURITIES ISSUED: COMPOSITION BY TYPE

	30/6/2018 Total			
	CA	Fair Value		
		L1	L2	L3
A. Securities				
1. Bonds	5,113,595	4,598,976	514,619	-
1.1 structured	34,115	32,508	1,606	-
1.2 other	5,079,480	4,566,468	513,013	-
2. Other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
Total	**5,113,595**	**4,598,976**	**514,619**	**-**

The item comprises bonds issued by the Group and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date, as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.
Subordinated securities amounting to €239.874 million are reported under "1.2 Bonds - Other".

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

At June 30, 2018 the following subordinated securities were in issue:

1. Issue date March 6, 2014, Maturity date March 6, 2021, initial nominal value of €200 million, residual nominal value at June 30: €105.500 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments.
2. Issue date June 18, 2015, Maturity date June 18, 2025, residual nominal value at June 30 of €104.973 million, interest rate 6-month Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
3. Issue date June 29, 2015, Maturity date June 29, 2025, residual nominal value at June 30 of €11.627 million, interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
4. Issue date July 30, 2015, Maturity date July 30, 2025, residual nominal value at June 30 of €16 million, interest rate 6-month Euribor + 350 basis points, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2018				
	NV	Fair value			Fair value *
		L1	L2	L3	
A. On-balance-sheet liabilities					
1. Due to banks	593	592	8	-	600
2. Due to customers	3,564	3,592	-	-	3,592
3. Debt securities	-	-	-	-	X
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3. Other	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Other	-	-	-	-	X
Total A	**4,157**	**4,184**	**8**	**-**	**4,192**
B. Derivatives					
1. Financial derivatives	X	1,104	519,650	-	X
1.1 Trading	X	1,104	519,282	-	X
1.2 Associated with fair value option	X	-	-	-	X
1.3 Other	X	-	368	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
Total B	**X**	**1,104**	**519,650**	**-**	**X**
Total (A+B)	**X**	**5,288**	**519,658**	**-**	**X**

Key
FV = Fair value
FV*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date
NV = nominal or notional value
L1=Level 1
L2=Level 2
L3=Level 3

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

4.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

	NV	Fair value 30/6/2018		
	30/6/2018	L1	L2	L3
A) Financial derivatives	**4,022,366**	**-**	**77,652**	**-**
1) Fair value	3,979,477	-	75,176	-
2) Cash flows	42,889	-	2,476	-
3) Investments in foreign operations	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-
2) Cash flows	-	-	-	-
Total	**4,022,366**	**-**	**77,652**	**-**

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Foreign operations
	Specific									
	Debt securities and interest rates	Equity securities and equity indices	Currencies and gold	Loans	Commodities	Other	Generic	Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	73,621	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	755	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**73,621**	**-**	**-**	**-**	**-**	**-**	**755**	**-**	**-**	**-**
1. Financial liabilities	800	X	-	-	-	-	X	2,476	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**800**	**-**	**-**	**-**	**-**	**-**	**-**	**2,476**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 5 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES – ITEM 50

There were no such positions as of the balance sheet date.

SECTION 6 - TAX LIABILITIES – ITEM 60

See section 10 under assets.

SECTION 7 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70

See section 11 under assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	TOTAL AT 30/06/2018
Amounts due to social security institutions and State	10,038
Amounts available to customers	4,857
Items being processed	91,845
Securities to be settled	
Definitive items not allocable to other accounts	21,892
Liabilities for future premiums	6,906
Payables to parent company for consolidated taxation mechanism	28,084
Subsidiaries – Group VAT mechanism	7,336
Tax payables due to tax authorities	10,347
Payables due to employees	10,038
Invoices to be paid and to be received	
Failed purchase transactions	89,219
Illiquid portfolio items	
TOTAL	**280,562**

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/6/2018
A. Opening balance	**11,312**
B. Increases	**339**
B.1 Provisions for the period	-
B.2 Other increases	339
C. Decreases	**834**
C.1 Benefit payments	630
C.2 Other decreases	204
D. Closing balance	**10,816**
Total	**10,816**

9.2 OTHER INFORMATION

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract. The liability calculated pursuant to Art. 2120 of the Civil Code amounted to €9,957 thousand.

The actuarial assumptions used by an independent actuary to calculate the liability as at the reporting date are as follows:

- **demographic parameters:** drawn from ISTAT's 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 2.75%;
- **financial parameters:** the calculations assumed an interest rate of 1.50%;
- **economic parameters:** the rate of inflation was assumed to be 1.50%, while the rate of increase in salaries was 2.38% for all categories of employee and used only for seniority purposes.

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index for the euro area, with an average duration comparable to the group being assessed.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/6/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued	110
2. Provisions for other commitments and guarantees issued	-
3. Company pension plans	-
4. Other provisions for risks and charges	10,197
4.1 legal disputes	5,403
4.2 personnel expenses	912
4.3 other	3,882
Total	**10,307**

The sub-item "Legal disputes" includes €1,844 thousand in provisions for revocatory actions and €3,563 thousand in provisions for litigation and disputes. The sub-item "Personnel expenses" mainly includes seniority bonuses for employees.

10.6 PROVISIONS FOR RISKS AND CHARGES – OTHER

"Other provisions" mainly includes provisions for commitments to the Deposit Guarantee Fund in the amount of €2,660 thousand, credit card fraud of €982 thousand and €236 thousand for disputes with personnel.

SECTION 11 - REDEEMABLE SHARES – ITEM 120

There were no such shares as of the reporting date.

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each, for a total of €1,151,045,403.55 held primarily by mutual banks and other entities in the mutual bank industry.

At June 30, 2018 Iccrea Banca held a residual 468,267 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €24,724,498.

12.2 SHARE CAPITAL– NUMBER OF SHARES: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(584,222)	-
A.2 Shares in circulation: opening balance	**21,701,265**	**-**
B. Increases	**115,955**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	115,955	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**21,817,220**	**-**
D.1 Treasury shares(+)	468,267	-
D.2 Shares at the end of the year	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-

12.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €415,591 thousand and include: the legal reserve (€50,785 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€337,299 thousand), a IAS FTA reserve (€15,378 thousand), an FTA IFRS 9 reserve (€9,922 thousand), a reserve (€1,843 thousand) created following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of BCC Multimedia, a positive reserve (€162 thousand) related to the transfer of properties to BCC Beni Immobili and a positive reserve (€234 thousand) related to the transfer of the "Branch Services" business unit to Banca Sviluppo. Pursuant to the provisions of the articles of association, at least one-tenth of net profit for the period shall be allocated to the legal reserve until that reserve is equal to one-fifth of share capital. The remaining nine-tenths are available for allocation by the Shareholders' Meeting, which decides on the basis of a proposal of the Board of Directors.

AVAILABILITY AND FORMATION OF EQUITY RESERVES

Pursuant to Art. 2427, nos. 4 and 7 bis of the Civil Code, the following table reports the composition of the Bank's shareholders' equity, indicating the origin, availability and possible distribution of the various components.

	AMOUNT	POSSIBLE USES (*)	AVAILABLE AMOUNT	SUMMARY OF USES IN LAST THREE YEARS	
				FOR LOSS COVERAGE	OTHER
Share capital	1,151,045				
Share premium account	4,747				
Treasury shares	(24,724)				
Reserves:					
a) legal reserve	50,785	B	50,785		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	337,299	A – B – C	306,299		
d) other reserves	2,002	A – B – C	2,002		
e) FTA reserve	25,300	A – B – C	25,300		
Valuation reserves:					
a) Financial assets measured through other comprehensive income (FVTOCI)	(14,194)		–		
b) cash flow hedges	(850)		–		
c) actuarial gains (losses) on defined-benefit plans	(1,812)				
Valuation reserves: (Law 342 of 22/11/2000)	52,062	A – B – C (**)	52,062		
Net profit for the period	(59,499)				
Total	**1,522,366**				

(*) A = CAPITAL INCREASE; B = LOSS COVERAGE; C = DISTRIBUTION TO SHAREHOLDERS (**) IF THE RESERVE IS USED TO COVER LOSSES, PROFITS MAY NOT BE DISTRIBUTED UNTIL THE RESERVE HAS BEEN RESTORED OR REDUCED TO A CORRESPONDING EXTENT. ANY SUCH REDUCTION MUST BE APPROVED BY THE EXTRAORDINARY SHAREHOLDERS' MEETING WITHOUT THE NEED TO COMPLY WITH THE PROVISIONS OF PARAGRAPHS 2 AND 3 OF ARTICLE 2445 OF THE CIVIL CODE.. IF THE RESERVE IS NOT ALLOCATED TO SHARE CAPITAL, IT MAY ONLY BE REDUCED IN COMPLIANCE WITH THE PROVISIONS OF PARAGRAPHS 2 AND 3 OF ARTICLE 2445 OF THE CIVIL CODE. IF IT IS DISTRIBUTED TO SHAREHOLDERS, IT SHALL FORM PART OF THE TAXABLE INCOME OF THE COMPANY AND THE SHAREHOLDERS.

12.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

There were no such positions as of the balance sheet date.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS (OTHER THAN THOSE DESIGNATED AS AT FAIR VALUE)

	Nominal value of financial guarantees issued and commitments			Total 30/6/2018
	Stage 1	Stage 2	Stage 3	
Irrevocable commitments to disburse funds	**7,095,244**	**-**	**-**	**7,095,244**
a) Central banks	-	-	-	-
b) Government	-	-	-	-
c) Banks	6,534,224	-	-	6,534,224
d) Other financial companies	478,827	-	-	478,827
e) Non-financial companies	82,193	-	-	82,193
f) Households	-	-	-	-
Financial guarantees issued	**81,991**	**-**	**-**	**81,991**
a) Central banks	-	-	-	-
b) Government	-	-	-	-
c) Banks	73,276	-	-	73,276
d) Other financial companies	6,445	-	-	6,445
e) Non-financial companies	2,270	-	-	2,270
f) Households	-	-	-	-

The nominal value of "commitments to disburse funds" represents the amount that the Bank could be called upon to disburse at the request of the counterparty net of amounts already disbursed and gross of total provisions.
The nominal value of "financial guarantees issued" represents the maximum about the Bank could be called upon to pay in event the guarantees are enforced. It reports the nominal value net of enforcements of unsecured financial guarantees issued by the Bank and repayments by the secured debtor and gross of total provisions.

PART C - Information on the income statement

SECTION 1 - INTEREST – ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/6/2018
1. Financial assets measured at fair value through profit or loss	**653**	**-**	**-**	**653**
1.1 Financial assets held for trading	125	-	-	125
1.2 Financial assets measured at fair value	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	528	-	-	528
2. Financial assets measured at fair value through other comprehensive	**4,138**	**-**	**X**	**4,138**
3. Financial assets measured at amortized cost	**60,111**	**15,393**	**X**	**75,504**
3.1 Due from banks	31,206	2,426	X	33,632
3.2 Loans to customers	28,905	12,967	X	41,872
4. Hedging derivatives	**X**	**X**	**-**	**-**
5. Other assets	**X**	**X**	**-**	**-**
6. Financial liabilities	**X**	**X**	**X**	**55,369**
Total	**64,902**	**15,393**	**-**	**135,664**
of which: interest income on impaired financial assets	-	1,781	-	1,781

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/6/2018
1. Financial liabilities measured at amortized cost	**(8,788)**	**(45,014)**	**X**	**(53,802)**
1.1 Due to central banks	-	X	X	-
1.2 Due to banks	(8,755)	X	X	(8,755)
1.3 Due to customers	(33)	X	X	(33)
1.4 Securities issued	X	(45,014)	X	(45,014)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**
3. Financial liabilities measured at fair value	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**(12,155)**	**(12,155)**
6. Financial assets	**X**	**X**	**X**	**(43,637)**
Total	**(8,788)**	**(45,014)**	**(12,155)**	**(109,594)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	30/6/2018
a) guarantees issued	41
b) credit derivatives	-
c) management, intermediation and advisory services:	8,681
1. trading in financial instruments	2,542
2. foreign exchange	118
3. asset management	-
3.1. individual	-
3.2. collective	-
4. securities custody and administration	3,066
5. depository services	-
6. securities placement	1,888
7. order collection and transmission	478
8. advisory services	589
8.1 concerning investments	-
8.2 concerning financial structure	589
9. distribution of third-party services	-
9.1. asset management	-
9.1.1. individual	-
9.1.2. collective	-
9.2. insurance products	-
9.3. other	-
d) collection and payment services	21,465
e) servicing activities for securitizations	-
f) services for factoring transactions	-
g) tax collection services	-
h) management of multilateral trading systems	-
i) holding and management of current accounts	114
j) other services	174,952
Total	**205,253**

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/6/2018
a) guarantees received	-
b) credit derivatives	-
c) management and intermediation services:	(3,599)
1. trading in financial instruments	(465)
2. foreign exchange	(24)
3. asset management:	-
3.1 own portfolio	-
3.2 third-party portfolio	-
4. securities custody and administration	(1,682)
5. placement of financial instruments	(1,428)
6. off-premises distribution of securities, products and services	-
d) collection and payment services	(2,944)
e) other services	(123,061)
Total	**(129,604)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2018	
	Dividends	Similar income
A. Financial assets held for trading	515	-
B. Other financial assets mandatorily measured at fair value	354	-
C. Financial assets measured at fair value through other comprehensive income	401	-
D. Equity investments	40,345	-
Total	**41,615**	**-**

Dividends received mainly regard:

- BCC Credito Consumo €9.6 million
- BCC Risparmio e Previdenza €13.5 million
- BCC Solutions €2 million
- Iccrea Banca Impresa €13.8 million
- Gestione Crediti €1.4 million

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (a)	Trading profits (b)	Capital losses (c)	Trading losses (d)	Net gain (loss) [(a+b) - (c+d)]
1. Financial assets held for trading	**15**	**6,753**	**(610)**	**(4,767)**	**(11,391)**
1.1 Debt securities	15	6,342	(253)	(4,677)	1,427
1.2 Equity securities (other than equity investments)	-	235	(171)	(67)	(3)
1.3 Units in collective investment undertakings	-	134	(186)	(15)	(67)
1.4 Loans	-	-	-	-	-
1.5 Other	-	42	-	(8)	34
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(11,391)**
4. Derivatives	**18,578**	**55,438**	**(21,125)**	**(50,123)**	**15,824**
4.1 Financial derivatives:	18,578	55,438	(21,125)	(50,123)	15,824
- on debt securities and interest rates	17,029	55,072	(8,824)	(43,393)	19,884
- on equity securities and equity indices	1,549	366	(125)	(1,989)	(199)
- on foreign currencies and gold	X	X	X	X	13,056
- other	-	-	(12,176)	(4,741)	(16,917)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option (IFRS 9, par. 6.7.1and e IFRS 7, par. 9 letter d)	X	X	X	X	-
Total	**18,593**	**62,191**	**(21,735)**	**(54,890)**	**5,824**

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/6/2018
A. Gains on:	
A.1 Fair value hedges	1,888
A.2 Hedged financial assets (fair value)	41,334
A.3 Hedged financial liabilities (fair value)	305
A.4 Cash flow hedges	2,115
A.5 Assets and liabilities in foreign currencies	-
Total income on hedging activities (A)	**45,642**
B. Loss on:	
B.1 Fair value hedges	(35,055)
B.2 Hedged financial assets (fair value)	(8,361)
B.3 Hedged financial liabilities (fair value)	(2,923)
B.4 Cash flow hedges	-
B.5 Assets and liabilities in foreign currencies	(2,118)
Total expense on hedging activities (B)	**(48,457)**
C. Net gain (loss) on hedging activities (A - B)	**(2,815)**
of which: net gain (loss) of hedges of net positions (IFRS 7 24C. letter b) vi); IFRS 9 6.6.4)	-

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/6/2018		
	Gains	Losses	Net gain (loss)
Financial assets			
1. Financial assets measured at amortized cost	16,897	(1)	16,896
1.1 Due from banks	42	(1)	41
1.2 Loans to customers	16,855	-	16,855
2. Financial assets measured at fair value through other comprehensive income	14,269	(77,673)	(63,404)
2.1 Debt securities	14,269	(77,673)	(63,404)
2.2 Loans	-	-	-
Total assets	**31,165**	**(77,673)**	**(46,509)**
Financial liabilities measured at amortized cost			
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Securities issued	247	(2,415)	(2,168)
Total liabilities	**247**	**(2,415)**	**(2,168)**

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.1 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

The section was not completed as there were no such positions as of the balance sheet date.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES MANDATORILY MEASURED AT FAIR VALUE

		Capital gains (a)	Profits on realization (b)	Capital losses (c)	Losses on realization (d)	Net gain (loss) [(a+b) - (c+d)]
1.	**Financial assets**					
1.1	Debt securities	3	-	- 3,352	-	-
1.2	Equity securities	1,904	-	- 8,501	-	-
1.3	Units in collective investment undertakings	3,280	-	-	-	-
1.4	Loans	-	-	- 41	-	-
2.	**Financial assets: foreign exchange differences**	X	X	X	X	-
	Total	5,187	-	-11,894	-	- 6,707

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total
	First and stage 2	Stage 3		First and stage 2	Stage 3	
		Writeoffs	Other			30/6/2018
A. Due from banks	**-**	**-**	**-**	**503**	**-**	**503**
- Loans	-	-	-	493	-	493
- Debt securities	-	-	-	10	-	10
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
B. Loans to customers	**(4,889)**	**-**	**(2,535)**	**475**	**606**	**(6,343)**
- Loans	(461)	-	(2,535)	475	606	(1,915)
- Debt securities	(4,428)	-	-	-	-	(4,428)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(4,889)**	**-**	**(2,535)**	**978**	**606**	**(5,840)**

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)			Recoveries (2)		Total
	Stage 3		First and stage 2	Stage 3	First and stage 2	
	Writeoffs	Other				30/6/2018
A. Debt securities	**(161)**	**-**	**-**	**-**	**-**	**(161)**
B Loans	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
Of which: loans purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(161)**	**-**	**-**	**-**	**-**	**(161)**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION - ITEM 140

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

10.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/06/2018
1) Employees	(43,097)
a) wages and salaries	(29,852)
b) social security contributions	(7,633)
c) termination benefits	(524)
d) pensions	-
e) allocation to employee termination benefit provision	(143)
f) allocation to provision for retirement and similar liabilities	-
- defined contribution	-
- defined benefit	-
g) payments to external pension funds:	(2,044)
- defined contribution	(2,044)
- defined benefit	-
h) costs in respect of agreements to make payments in own equity instruments	-
i) other employee benefits	(2,901)
2) Other personnel	(117)
3) Board of Directors and members of Board of Auditors	(961)
4) Retired personnel	-
5) Recovery of expenses for employees seconded to other companies	3,242
6) Reimbursement of expenses for third-party employees seconded to the Company	(1,326)
Total	**(42,259)**

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/6/2018
Information technology	**(40,486)**
Property and movables	**(11,824)**
Rental and fees	(11,824)
Cleaning	-
Security	-
Goods and services	**(6,403)**
Telephone and data transmission	(3,722)
Postal	(1,599)
Valuables transport and counting	(31)
Electricity, heating and water	(201)
Transportation	(562)
Office supplies and printed materials	(288)
Subscriptions, magazines and newspapers	-
Professional services	**(13,220)**
Professional fees (other than audit fees)	(10,324)
Audit fees	(186)
Legal and notary costs	(541)
Court costs, information and title searches	(5)
Insurance	(282)
Administrative services	(1,882)
Advertising and entertainment	**(3,612)**
Association dues	**(2,710)**
Charity	**-**
Other	**(4,777)**
Indirect taxes and duties	**(36,222)**
Stamp duty	(7,345)
Long-term loan tax - Pres. Decree 601/73	-
Municipal property tax	-
Duties on stock exchange contracts	(10)
Other indirect taxes and duties	(28,867)
Total	**(119,254)**

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

11.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	Total at 30/06/2018		
	Provisions	Reallocations of excesses	Total
Net provisions: commitments to disburse funds Stage 1	-	2	2
Net provisions: commitments to disburse funds Stage 2	-	-	-
Net provisions: commitments to disburse funds Stage 3	-	-	-
Net provisions: financial guarantees issued Stage 1	-	38	38
Net provisions: financial guarantees issued Stage 2	(26)	-	(26)
Net provisions: financial guarantees issued Stage 3		-	-
Total	**(26)**	**41**	**15**

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	Total at 30/06/2018		
	Provisions	Reallocations of excesses	Total
Net provisions: Legal disputes	(1,441)	127	(1,314)
Net provisions: Other	(181)	2,162	1,981
	(1,621)	**2,289**	**667**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT – ITEM 180

12.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b + c)
A. Property and equipment				
A.1 owned	(2,144)	-	-	(2,144)
- operating assets	(2,144)	-	-	(2,144)
- investment property	-	-	-	-
- inventories	X	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**(2,144)**	**-**	**-**	**(2,144)**

SECTION 13 - NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
Intangible assets				
A.1 owned	(1,219)	-	-	(1,219)
- generated internally by the Bank	-	-	-	-
- other	(1,219)	-	-	(1,219)
A.2 acquired under finance leases	-	-	-	-
Total	**(1,219)**	**-**	**-**	**(1,219)**

SECTION 14 - OTHER OPERATING EXPENSES/INCOME – ITEM 200

This item reports expenses and income not allocable to other accounts.

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	TOTAL AT 30/06/2018
Other charges	(824)
Total	**(824)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	TOTAL AT 30/06/2018
Recoveries:	
- Stamp duty	5,961
- Tax on loan transactions	35
Revenues from Milano Finanza Web services	3,277
Revenues for personnel administration services	276
Insourcing revenues	1,886
Other income	3,675
TOTAL	**15,110**

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 16 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 230

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 17 - VALUE ADJUSTMENTS OF GOODWILL – ITEM 240

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 18 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 250

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total
	30/6/2018
1. Current taxes(-)	4,753
2. Change in current taxes from previous period (+/-)	25
3. Reduction of current taxes for the period (+)	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-
4. Change in deferred tax assets (+/-)	99
5. Change in deferred tax liabilities (+/-)	572
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	5,450

For more on changes in deferred tax assets and liabilities, please see the comments to the tables in Section 10 of the balance sheet.

19.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

Summary:	
I.R.E.S.	5,452
I.R.A.P.	(2)

SECTION 20: PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 290

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 21 - OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables..

SECTION 22 - EARNINGS PER SHARE

The section was not completed as there were no such positions as of the balance sheet date.

PART D - Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		30/6/2018
10.	**Net profit (loss) for the period**	**(59,499)**
	Other comprehensive income not recyclable to profit or loss	
20.	Equity securities designated as at fair value through other comprehensive income:	(6,639)
	a) fair value changes	(6,639)
	b) transfers to other elements of shareholders' equity	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-
	a) fair value changes	-
	b) transfers to other elements of shareholders' equity	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-
	a) fair value changes (hedged instrument)	-
	b) fair value changes (hedging instrument)	-
50.	Property and equipment	-
60.	Intangible assets	-
70.	Defined-benefit plans	204
	Non-current assets held for sale	-
90.	Valuation reserves of equity investments accounted for with equity method	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	(34)
	Other comprehensive income recyclable to profit or loss	
110.	Hedging of investments in foreign operations:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
120.	Foreign exchange differences:	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
130.	Cash flow hedges:	342
	a) fair value changes	2,457
	b) reversal to income statement	(2,115)
	c) other changes	-
	of which: result on net positions	-
140.	Hedging instruments (undesignated elements):	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	(14,243)
	a) fair value changes	(6,166)
	b) reversal to income statement	(8,076)
	- adjustments for credit risk	(422)
	- gain/loss on realization	(7,654)
	c) other changes	-
160.	Non-current assets and disposal groups held for sale:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
170.	Valuation reserves of equity investments accounted for with equity method:	-
	a) fair value changes	-
	b) reversal to income statement	-
	- impairment adjustments	-
	- gain/loss on realization	-
	c) other changes	-
180.	Income taxes on other comprehensive income recyclable to profit or loss	2,285
190.	**Total other comprehensive income**	**(18,084)**
200.	**Comprehensive income (item 10+190)**	**(77,583)**

PART E - Risk and risk management policies

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

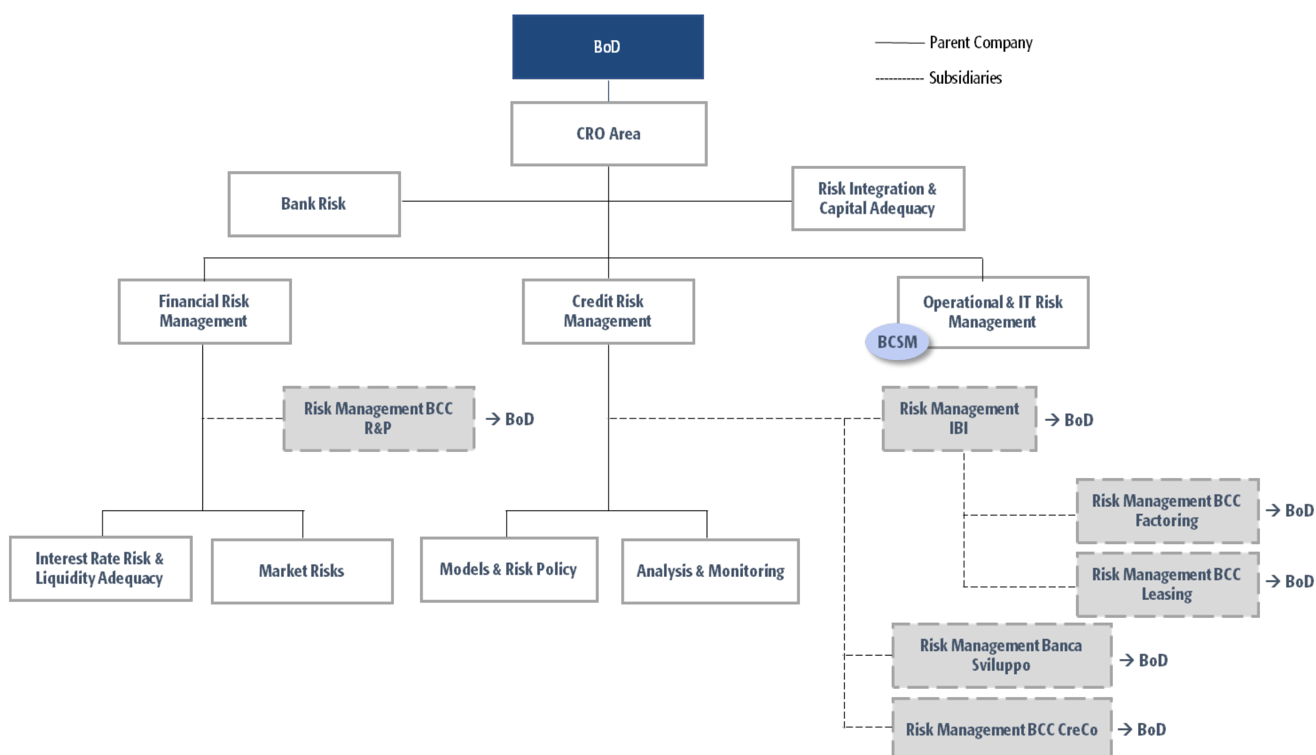
- ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

The risk management function is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the risk management function, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

- STRUCTURE OF RISK MANAGEMENT

During the first half of 2018, the reorganization of the Group Risk Management function was approved by the competent bodies, in continuity with the corporate governance project from 2017 and in consideration of the needs that have arisen in connection with the reform of the mutual banking system, as well as constant dialogue with the supervisory authorities.

As at June 30, 2018, the organizational structure of the Risk Management function remains unchanged compared with that discussed in the Annual Report at December 31, 2017. It is structured as follows:



Consistent with the centralized governance model, the upcoming organizational structure envisages a risk management model with functional governance and responsibility centralized at the Parent Company of all the affiliated banks involved in the creation of the new Mutual Banking Group (MBG), with Iccrea Banca as Parent Company. This model will generally be implemented with the outsourcing of risk management functions to the Parent Company, with the adoption of specific service contracts outsourcing the function.

With a view to the adoption of this model, and in consideration of the need to have a "organizational" structure that supports the new corporate configuration, the main lines of development underpinning that reorganization concerned the need to:

- act as a "control center" for the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the early warning system and the guarantee mechanism;
- coordinate local risk management officers, facilitating dialogue with the other specialist units of the Risk Management department;
- adopt an organizational unit dedicated to validating the models developed internally to quantify the risks to which the MBG will be exposed;
- implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved the following organizational measures:

- the establishment of the "Mutual Bank Risk Management" unit, reporting directly to the CRO area in order to give the Parent Company's Risk Management function a "specialized hub" for managing the risks to which the banks affiliated with the upcoming MBG are exposed;
- the strengthening of the units dedicated to managing credit, financial and operational risks, reporting to the new "Group Risk Management" unit, which is in charge of the operation of the Bank and Group risk control system, developing the appropriate methods for measuring current and prospective risks;
- the establishment of the "Risk Governance and Validation" unit, reporting directly to the CRO area. It is involved in the definition and operational maintenance of the methodological framework for risk governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR) and in the validation of the models developed internally to quantify risks.

With regard to the governance of risk management arrangements, functional responsibility for the Risk Management function has been retained by the Parent Company. More specifically the Risk Manager position at the Parent Company was assigned to the CRO, while:

- at the subsidiaries that role is filled by the heads of the Risk Management units of the subsidiaries, who report functionally to the head of Group Risk Management and hierarchically to the board of the subsidiary to which they belong;
- at the affiliated mutual banks, the heads of their Risk Management units report to the head of the local Risk Management unit of the hub to which they belong.

Following the above reorganization, the CRO area is structured into three main units:

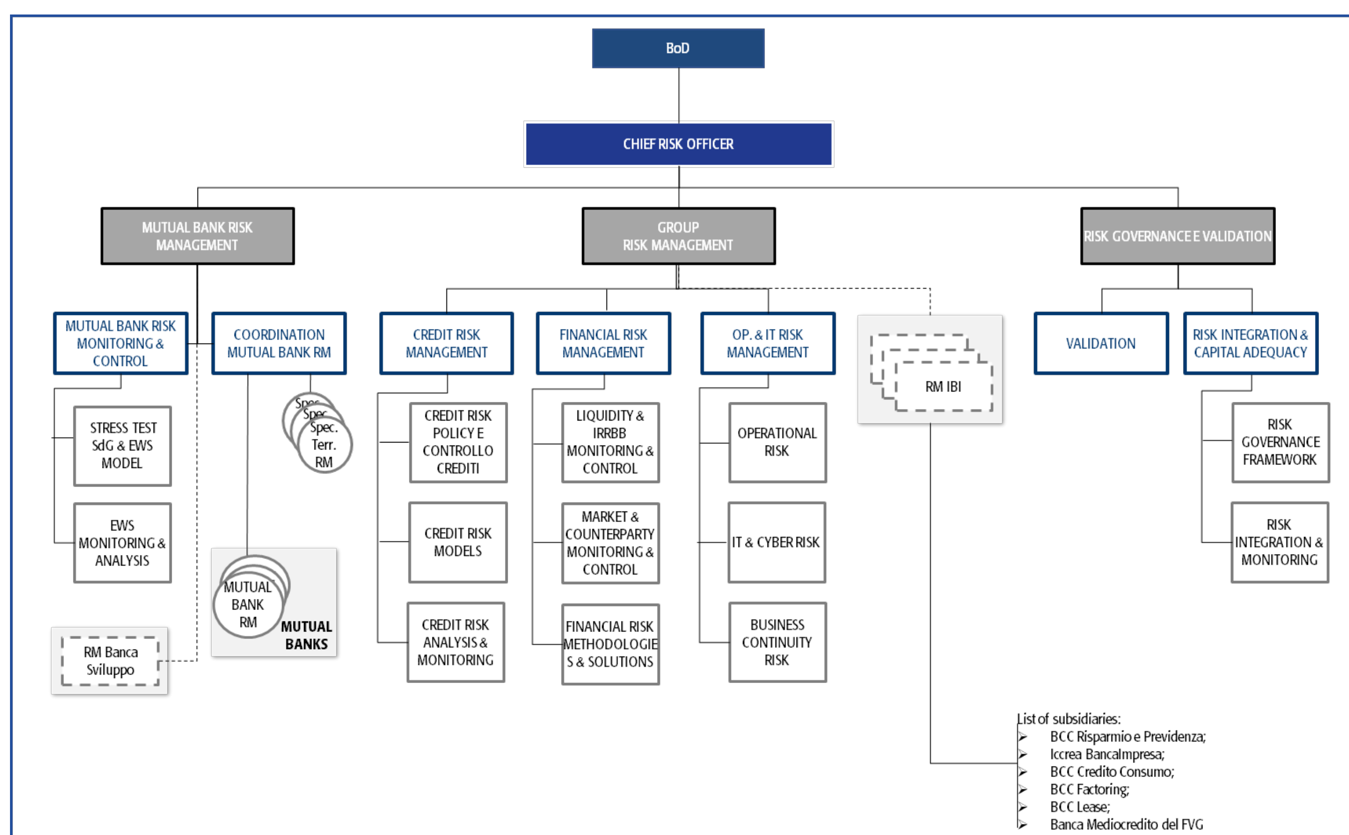
- Risk Governance and Validation, which is involved in the definition and operational maintenance of the main risk governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR) and in the validation of the models developed internally to quantify the risks to which the MBG is exposed.
- Group Risk Management, which constantly monitors and mitigates the overall exposure of the Group and each individual unit to credit, financial, operational and other significant risks, in compliance with the limits established in internal rules and supervisory regulations.

- Mutual Bank Risk Management, which is involved in developing methods and tools for the ongoing monitoring of the affiliated banks, as well as in monitoring the risk profile and the periodic updating of the risk categories assigned to each affiliated bank.

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the risk management function on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business. More specifically, the Risk Management units of the subsidiaries report functionally to:

- the Risk Management unit of the Parent Company for BCC Risparmio e Previdenza, Iccrea BancaImpresa, BCC Credito Consumo, BCC Factoring, BCC Lease and Banca Mediocredito del Friuli Venezia Giulia;
- the Mutual Bank Risk Management unit for Banca Sviluppo.

The following chart outlines the organizational structure of the Risk Management function described above, as approved by the Board of Directors of the Parent Company.



MAIN DUTIES OF THE RISK MANAGEMENT FUNCTION

The responsibilities of the Risk Management function include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities.

- More specifically, the function participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:

- compliant with applicable regulations, in line with market best practice and consistent with internal requirements;

- consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP.

The risk assumption and management framework:

- consists of organizational structures and corporate processes (operating, administrative and business), including line controls;
- supporting applications;
- risk governance policies (policies, limits, responsibilities);
- methodologies;
- risk measurement and assessment criteria;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system.

In this area, it:

- develops risk measurement and assessment methods and models;
- performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;
- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
- identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Iccrea Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;

- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.)..

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- Risk identification (knowledge): this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- Assessment/measurement of the identified risks (awareness): this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).
- Risk prevention and attenuation (strategy): this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- Monitoring and reporting (tracking and control): this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).
- Risk management and mitigation (reaction and proactivity): this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective

maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis). Credit risk, consistent with the organizational arrangements defined at the Iccrea Banking Group level for risk governance and management, is managed with the integration of a series of processes and associated responsibilities defined within internal units and regulated with a comprehensive set of internal rules for credit risk.

Iccrea Banca, in its role as Parent Company, coordinates and guides the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for Group lending activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

2. CREDIT RISK MANAGEMENT POLICIES

Organizational aspects

The organizational unit of Iccrea Banca responsible for assuming and managing credit risk is the Loans department, which is responsible for developing – in conformity with the strategic objectives of the Bank – the operational plans for lending activities. In addition, it also manages – within the scope of its operational responsibilities - lending activities for the purpose of granting loans and operating credit in support of the operations of the various business lines as well as relations with correspondents abroad. It also plays a role, in coordination with the Risk Management unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and

loans to bank counterparties. In addition, it manages exposures classified as impaired past due/overlimit or unlikely to be repaid, as well as registering/controlling loan positions in the information system.

In general, the Loans department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

Within the CRO area, the Credit Risk Management unit and the Bank Risk unit manage exposures in respect of customers (retail e corporate), banks and other financial intermediaries respectively managing monitoring systems and models for the assessment of bank creditworthiness and developing policy recommendations with regard to the assumption and management of risk. They are also responsible for second-level control of the risks assigned to them.

More specifically, the units are responsible for promoting the adoption of procedures for assuming, managing and controlling credit risk designed to guarantee effective management of such risk in line with the principles set out in supervisory regulations and management requirements. They also produce independent reporting on such risks, participating in updating and developing rules governing credit risk, with particular regard to delegated powers and operational limits.

In order to manage credit risk, credit exposure is segmented into portfolios on the basis of the type of loan/credit facility and type of counterparty (mutual banks, other banks, ordinary customers).

Further segmentation is carried out within each customer segment on the basis of the technical form (current account overdrafts, loans, etc.) and maturity (short, medium and long term).

The credit process is organized into the following phases:

- Start of application processing: collection of data need to start the lending/loan revision process with a specific counterparty;
- Processing: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- Decision proposal: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- Authorization: approval of the decision by the decision-making body and start of authorized operations;
- Monitoring: tracking of specific performance indicators (performance controls) and structural assessment of the overall risk profile of the borrower (performance monitoring).

2.1 MANAGEMENT, MEASUREMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized for accounting purposes.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral). A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of Iccrea Banca are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets,

repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

MEASUREMENT AND VALUATION OF RISKS

For the purpose of calculating prudential requirements for credit risk, the Iccrea Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the Risk management department area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control unites of the Group companies to agree methodological issues where appropriate.

The assessment framework is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "modules", called Structural and Performance. The assessment of counterparty creditworthiness begins with an analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A single name Maximum Exposure Limit (MEL) is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The MEL takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite within the Risk Appetite Framework (RAF).

The MEL is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the risk ceiling. Two warning thresholds are also specified for Risk Tolerance and Risk Capacity which if exceeded trigger the transmission of a report from Risk Management to the Executive Committee and the Board of the Parent Company to determine the actions to be taken to reduce risk to an acceptable level.

RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.
The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.
More specifically, with regard to the Financial Institutions business line, the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application

generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.

MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the Risk Management department.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

For financial instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments), IFRS 9 introduced a model based on the concept of "expected loss" in replacement of the "incurred loss" concept employed by IAS 39.

Under the provisions of the new standard, Iccrea Banca adopted a method for measuring expected losses on loans and securities subject to impairment based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: Financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: Financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: Financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- Application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- Calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- Inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;

- Staging and transfers of financial assets between the stages.

In accordance with the accounting rules, the Iccrea Banking Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.

The staging method of Iccrea Banca was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the Company, overcollateralized exposures and any specific exposures of the individual company;
- the use of quantitative criteria based on internal rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of significant thresholds defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position. If there is no origination PD/rating and only the reporting date PD/rating is available, the method provides for the use of the practical expedient of the low credit risk exemption;
- the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions under observation (where a watchlist system is available), positions more than 30 days past due and forborne performing exposures;

For credit exposures, forborne performing positions allocated to stage 2 remain in this class until, depending on the outcome of the forbearance measures, the conditions for the classification as forborne lapse, i.e. after 24 months, with consequent transfer to stage 1.

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test. Securities issued are conventionally allocated to stage 1.

The approach adopted for FTA provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Securities exposures to Group entities are also automatically allocated to stage 1.

Main drivers of ECL and scenarios used in IFRS 9 modeling

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, Iccrea Banca has developed a method, differentiated by individual company and using internal rating models where available, in order to obtain point-in-time, forward-looking and lifetime PDs.

For the loan portfolio, the drivers common to all of the approaches used to produce the PD to be used at FTA and subsequently regard:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the basis of a 1-year time horizon;
- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PIT PD and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

For the securities portfolio, the drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

Loss Given Default (LGD)

Iccrea Banca estimates LGD by grouping exposures at a variable level of granularity (by product, counterparty type or overall company portfolio), observing, for each uniform cluster of exposures, the ratio of provisions associated with specific writedowns deform to the total gross non-performing exposure and applying a danger rate matrix *(to quantify the probability of transition of non-performing positions from one status to another)*.

For the securities portfolio, the same LGD is used for exposures in stage 1 and stage 2. More specifically, the LGD is equal to 45%.

Exposure At Default (EAD)

Iccrea Banca differentiates the approach used to estimate EAD by loan portfolio on the basis of product type and stage of the exposure, as follows:

- the EAD for stage 1 is equal to the residual debt (or gross exposure) at the reporting date;
- the EAD for stage 2, for amortizing on-balance-sheet exposures only, is calculated on the basis of the observed residual debt for the position over the entire residual life, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure. For other types of exposure it is equal to the residual debt at the reporting date.

For "Margin" credit exposures, the regulatory CCF was used to estimate EAD for stage 1 and stage 2.

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

Iccrea Banca conditions risk parameters for future macroeconomic scenarios by estimating/updating, on an annual basis, models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of certain reference variables (default rates, amount of non-performing positions, etc.).

In order to obtain a PD that reflects future macroeconomic conditions, we estimate "satellite models" differentiated by counterparty type that "explain" the relationship linking default rates to a set of "explanatory" macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two

separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, Iccrea Banca estimates a regression model that "explains" the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of "explanatory" macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, Iccrea Banca associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

2.4 Risk mitigation techniques

A series of measures have been developed to upgrade the Bank's organizational and IT resources in order to create effective structural and process arrangements that ensure full compliance with the organizational, financial and legal requirements under the new regulations and govern the entire process of acquiring, assessing, controlling and realizing instruments used to mitigate credit risk. Guarantees eligible for mitigation of credit risk are specified in an "analytic guarantee chart", which provides a specific description of all the information necessary for correct use of the security. The types of eligible guarantee must be approved by the Board of Directors. Iccrea Banca also acquired financial guarantees in respect of "collateral pool" operations backing credit facilities for mutual banks. Pursuant to the provisions of Legislative Decree 170/2004, these guarantees are included, under the rules set out in supervisory instructions, among eligible credit risk mitigation techniques (see Bank of Italy Circular no. 285/2013, Part 2, Chapter 5).

Re-examination has begun of mortgage guarantees already acquired by the Bank covering existing real estate loans, and an electronic database containing their details is being prepared in order to enable for systematic monitoring of their value. A similar effort is being made for all lien security already acquired by the Bank.

Within the context of over-the counter derivative transactions, Iccrea Banca uses a "close-out netting" mechanism with mutual banks providing for the right to terminate pending relationships immediately with the offsetting of reciprocal positions and payment of the net balance in the event of the counterparty's default or bankruptcy. This netting technique is also used for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see EU Regulation no. 575/2013, Title II, Part 3, Chapter 6, Section 7, Article 296).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans Technical Secretariat uses electronic systems for operating with the government office responsible for cancelling encumbrances in respect of repaid loans.

In order to mitigate the credit risk associated with trading in financial derivative instruments with bank counterparties (counterparty risk), Iccrea Banca uses bilateral netting arrangements that in the event of counterparty default enable offsetting of creditor and debtor positions in financial derivatives transactions, as well as for securities financing transactions (SFTs).

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, as at June 30, 2018, for the purpose of mitigating counterparty risk we used both the clearing services of LCH and bilateral netting arrangements (such as ISDA and/or Framework Agreements) for financial instruments and types of market counterparty currently not covered by LCH. The Bank also continues to enter into Credit Support Annex (CSA) arrangements. At June 30, 2018 there were 224 margin agreements (CSAs) outstanding, of which 82 with market counterparties and 142 with mutual bank industry counterparties.

As for repos, 11 GMRAs were entered into, of which 3 are active and operational with two counterparties.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

Iccrea Banca's strategies for managing impaired credit exposures are an integral part of the Iccrea Banca's overall long-term Strategic Plan. The objectives for managing NPEs are incorporated in an Operational Plan, consisting of all the activities that the Group undertakes to effectively implement the Strategic Plan in a manner consistent with applicable regulations and regulatory policy.

The operational planning of the objectives to be achieved for the NPE portfolio also enables the Bank to monitor the ongoing effectiveness of its strategies and to identify appropriate corrective measures in the event of deviations from targets.

The Iccrea Banca has implemented appropriate governance and operational structures to enable the efficient and sustainable management of impaired loans.

More specifically:

- the analysis, recovery and restructuring of non-performing exposures is structured around units that are separate from the units responsible for origination and those that monitor performing positions. In cases where the establishment of an organizational unit is not possible, internal controls have been established to ensure adequate mitigation of potential conflicts of interest. As a corollary to the foregoing, the decision-making bodies of the units involved in managing non-performing exposures do not have decision-making authority for performing positions, while those of the units responsible for managing performing positions do not have authority to make decisions concerning non-performing positions;
- criteria for allocating exposures have been specified. They are used to trigger a change in responsibility for/ownership of exposures at the level of the units specialized in managing impaired exposures, in compliance with the principle of assigning a position to a single manager;
- the system also provides for activities, including self-assessment, to assess the suitability, in both quantitative and qualitative terms, of the structures and resources deployed to manage impaired financial assets.

The reduction in the impaired exposures envisaged in the 2018-2020 plan will be accomplished with the implementation of a series of strategies, namely:

- maintaining positions on the balance sheet in the short term, to be applied to positions in reversible financial difficulty that are expected to return to performing status with short-term measures;
- maintaining positions on the balance sheet in the long term, to be applied to positions in a more advanced, albeit reversible, state of financial difficulty that are expected to return to performing status with long-term measures, including the debt restructuring measures provided for by law;
- legal action, to be applied to severely impaired positions for which legal action is taken to recover the claim, as the state of crisis appears deeply rooted and irreversible;
- active portfolio reduction, to be applied to impaired positions that are not considered recoverable. They are slated for disposal as the state of crisis appears to be deeply rooted and irreversible and the sale of the positions can also contribute to reducing the operating costs of managing NPEs.

In summary, the main actions are as follows:

- attempts at amicable recovery of loans and assets in the case of lease transactions;
- restructuring of exposures, using the options available under bankruptcy law where appropriate. This activity is based on an analysis of the credibility and repayment capacity of the counterparty, as well as the overall sustainability of the plans. The Group's policies are aimed at taking early action to restructure loans as the positive effects of curing on exposures are all the more effective the earlier they are implemented. In this regard, the instruments for monitoring counterparties have been strengthened in order to detect the initial signs of deterioration and promptly guide subsequent action;
- settlements, predominantly on an out-of-court basis;
- legal and out-of-court recovery of loans and assets, with a focus on remarketing leased assets;
- disposal of non-strategic NPE portfolios, making significant use of GACS state guarantee scheme. In addition to the sale of portfolios, the strategies also provide for one-to-one transfers where the terms offered are attractive, taking account of prices prevailing in market transactions.

The actions to be pursued are selected following an assessment of the cost-effectiveness of the measures and is reflected in a clustering of customers/transactions structured so as to guide operations effectively and facilitate the monitoring of the activities performed.

3.2 WRITEOFFS

Extinguishing loans – apart from ordinary recovery actions – essentially involves writing off positions and the non-recourse assignment of exposures.

Writeoffs may involve part or all of a position and do represent waiver of the legal right to recover the loan.

Initiation of writeoff procedure presupposes that the NPE has residual balance for which no further recovery is envisaged for the following reasons:

- a final judgment has been issued that establishes the impossibility of recovery;
- all possible forced recovery procedures have failed;
- there is no expectation of recovery (also linked to the position's vintage) and the impossibility of taking further actions given that any guarantees are essentially worthless or the overall financial position and profitability of the obligors are such as to recommend terminating recovery actions;
- the start or continuation of legal action would be uneconomic.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTATIONS AND EXPOSURES SUBJECT TO FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "objective" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";
- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- Iccrea BancaImpresa has been notified by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as "forbearance" can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication "Guidance to banks on non-performing loans", the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
    - the institution can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
    - short-term measures are truly applied temporarily and the institution has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;
    - the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if these regard separate contracts if the loan was refinanced in a previous forbearance solution).

- a forbearance solution including long-term forbearance measures should only be considered viable where:
    - the institution can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
    - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
    - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

		Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total
1. Financial assets measured at amortized cost		13,738	1,676	26	348	39,786,601	39,802,389
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	284,932	284,932
3. Financial assets at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value		-	-	-	-	118,163	118,163
5. Financial assets held for sale		-	-	-	-	-	-
Total	**30/6/2018**	**13,738**	**1,676**	**26**	**348**	**40,189,696**	**40,205,484**

The impaired positions reported in the table above and the following tables in this section include assets assigned but not derecognized.

The following table reports amounts for assets with forbearance measures broken down by credit quality and portfolio.

A.1.2 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired assets				Unimpaired assets			
	Gross exposure	Specific adjustments	Net exposure	Total partial writeoffs *	Gross exposure	Specific adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	56,940	41,501	15,439	2,645	39,795,759	8,811	39,786,948	39,802,387
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	284,932	392	284,540	284,540
3. Financial assets at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	118,163	118,163
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30/6/2018	**56,940**	**41,501**	**15,439**	**2,645**	**40,080,691**	**9,203**	**40,189,651**	**40,205,090**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	577,503
2. Hedging derivatives	-	-	6,572
Total 30/6/2018	**-**	**-**	**584,075**

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	24,676,745	2,744	24,674,001	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**24,676,745**	**2,744**	**24,674,001**	**-**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	6,816,309	85	6,816,224	-
TOTAL B	**-**	**6,816,309**	**85**	**6,816,224**	**-**
TOTAL A+B	**-**	**31,493,054**	**2,829**	**31,490,225**	**-**

A.1.7 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposures		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	55,057	X	41,319	13,738	2,645
- of which: forborne exposures	280	X	37	243	-
b) Unlikely to be repaid	1,857	X	181	1,676	-
- of which: forborne exposures	861	X	115	746	-
c) Impaired past due exposures	26	X	-	26	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	357	9	348	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	15,573,230	6,450	15,566,780	-
- of which: forborne exposures	X	840	27	813	-
TOTAL A	**56,940**	**15,573,587**	**47,959**	**15,582,568**	**2,645**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	757,923	1	757,922	-
TOTAL B	**-**	**757,923**	**1**	**757,922**	**-**
TOTAL A+B	**56,940**	**16,331,510**	**47,960**	**16,340,490**	**2,645**

C. SECURITIZATIONS

Quantitative disclosures

C.1 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

The table has not been completed because there were no such positions as of the balance sheet date.

C.2 EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	ON-BALANCE-SHEET EXPOSURES						GUARANTEES ISSUED						CREDIT LINES					
	SENIOR		MEZZANINE		JUNIOR		SENIOR		MEZZANINE		JUNIOR		SENIOR		MEZZANINE		JUNIOR	
	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS
A,1 Lucrezia Securitization																		
- bad debts	5,117	(3,483)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- other assets	109,231	(411)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The amount of bad debts regards three securities issued by the vehicle Lucrezia Securitization as part of the crisis resolution measures for:

- Banca Padovana and BCC Irpina
- Crediveneto
- BCC Teramo

The amount of other assets regards a loan to the vehicle Lucrezia Securitization Srl for the purchase of non-performing exposures as part of the rescues of distressed mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina and BCC Agrobresciano), for which Iccrea Banca undertook to subscribe all of the corresponding notes.

SECTION 2 - MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.
The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS exchange;
- acting as a market maker and direct participant (for transmission of orders from mutual banks) on the Hi-MTF and EuroTLX multilateral trading systems;
- participating in the primary market for share and bond placements and in tenders and subscriptions of government securities;
- negotiating repurchase agreements on both OTC and regulated markets, and derivatives on regulated markets;
- structuring, executing and managing financial derivatives traded on unregulated markets, mainly to satisfy the specific needs of the Bank's customers;
- providing the mutual banks with investment services, trading on own account, order execution for customers, order reception and transmission, trading on behalf of third parties and the placement of financial instruments issued by the Bank and by third parties;
- providing the mutual banks with access to standing facilities with the ECB;
- management of liquidity and the short-term interest rate profile in respect of transactions on the interbank, foreign exchange and precious metals markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the context of operating powers, specific operational limits on trading positions that generate exposures to market risks have been established. These risks are mainly assumed in respect of domestic government securities and futures contracts, traded on official markets with netting and guarantee mechanisms, as well as mainly plain vanilla interest rate derivatives to support the mutual banks' hedging requirements.

Transactions in interest rate derivatives also include interest rate swaps with institutional counterparties to support the special purpose vehicle in transforming interest flows generated by securitizations of receivables of the mutual banks and the companies of the Iccrea Banking Group. Overall exposure to interest rate risk is concentrated in transactions in euros. As a result, the impact of correlation between developments in the yield curves for other currencies is minimal.

B. Management and measurement of interest rate risk and price risk

GOVERNANCE AND ORGANIZATIONAL MODEL

The market risk management and governance framework of the Iccrea Banking Group adopts a "centralized" approach. Iccrea Banca, as Parent Company, is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group's market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

IDENTIFICATION OF RISKS

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

RISK MEASUREMENT AND ASSESSMENT

Risk Management, acting through the Market Risks unit, is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- *Probabilistic metrics*:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- *Deterministic metrics:*
  - Level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - Analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - Stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - Loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

To calculate VaR, Iccrea Banca uses the so-called Delta Gamma parametric approach (confidence level of 99% and holding period of 1 day), in which the risk factors and the financial instruments in the portfolio have a normal distribution.

Measuring VaR therefore involves calculating (i) the sensitivity of the individual positions to changes in market parameters, summarized in the so-called VaRMap; and (ii) the variance/covariance matric of the market parameters. The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.
In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.
The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.
It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthening the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations). The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effectiveness management of market risk is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.
At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.
The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Bank's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the operating units, top management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with a 99% confidence level. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method. In the last 250 trading days, the average VaR has been €0.37 million, with a minimum of €0.12 million and a maximum of €0.89 million (registered on July 17, 2017), which is below the limit for that specific category of operations, which was €2.0 million for the head of Finance at Iccrea Banca. At June 29, 2018 the VaR was €0.27 million.

Daily VaR on Trading Book	Notional	VaR	
	30/6/2018*	Limit	Risk Profile
Iccrea Banca	14,641	2.00	0.27

* Figures in millions of euros as at June 29, 2018

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

GOVERNANCE AND ORGANIZATIONAL MODEL

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book, including guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;
- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of Risk Management, monitors and manages interest rate risk at the individual and consolidated level and verifies compliance with the limits set at the strategic planning stage.

Management of interest rate risk on the banking book is performed by the **Asset & Liability Management** (ALM) function, performed by the Finance unit, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations;
- **Money Market operations**, which are performed by the Treasury and Foreign Exchange unit. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations.

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to Iccrea Banca using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

IDENTIFICATION OF RISKS

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, sources of interest rate risk are identified and classified in the following risk sub-categories: reprising risk, yield curve risk, basis risk and option risk.

RISK MEASUREMENT AND ASSESSMENT

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach**: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning;
- **Economic value approach**: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.
The metrics used in the current earnings approach are:

- **Repricing gap**: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII sensitivity**: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- **Duration gap**: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- **EVE sensitivity**: the change in the expected value of the banking book is calculated using a "full revaluation" approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.
The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests are conducted for the two metrics:

- **EVE Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NII Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic "going concern" approach with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book (IRRBB, interest rate risk in the banking book and CSRBB, credit spread risk in the banking book).

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally.

To measure the exposure to repricing risk, the system calls for assessing the impact on economic value and net interest income of parallel shocks to the yield curve, based on various degrees of severity (e.g. changes of +/- 200 bps in the curve).

The exposure to yield curve risk is estimated by measuring the risk of a reduction in the profitability or economic value of the banking book assuming non-parallel shocks to the yield curve (e.g. steepening and flattening shocks).

In order to measure the exposure to basis risk, the system calls for the definition of ad hoc scenarios (the baseline and adverse scenarios), which widen and narrow the basis spreads between the main indexing bases for variable-rate items in the banking book and the risk-free rate adopted by the ALM center (3-month Euribor). The level of the shocks (opening and closure of the basis spreads) to be applied to the main indexing rates is determined on the basis of the empirical distribution of past spreads at the 1st and 99th percentiles with a horizon of 1 year (baseline scenario) and 6 years (stress scenario).

As regards CSRBB, stress tests are performed to quantify the impact on net interest income of possible changes in the premiums demanded by the market or the Bank for credit risk and other market risks, considering the impact on the "margin", i.e. the spread between the effective interest rate and the reference rate.

In addition, historical scenarios defined internally on the basis of prudential assessments and historical analyses of observed rate variations are also used.

RISK PREVENTION AND ATTENUATION

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.
The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to the Bank as the Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.
The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Risk limits and additional metrics are also used to monitor the exposure to the individual business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.
The system of limits is also accompanied by a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management policy.
The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;

- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.[4] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and the Board of Directors.

[4] *See. ""Interest Rate Risk in the Banking Book Policy (IRRBB Policy)"";*

RISK MANAGEMENT AND MITIGATION

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of Iccrea Banca, which handles the centralized management of the exposure to interest rate risk by selecting market parameters (e.g. 3-month Euribor rather than 6-month Euribor) that appropriately reflect the actual risk associated with the products placed by the Group.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

	impact on economic value		impact on net interest income at 12 months	
SCENARIO	- 100 bp	+100 bp	- 100 bp	+100 bp
	-5.1	+8.4	-5.5	+5.2

2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

A. FAIR VALUE HEDGES

Specific and portfolio hedges have been established to hedge interest rate risk by transforming flows from fixed rate to variable rate. More specifically, the positions exposed to interest rate risk are attributable to the following categories:

- specific hedges of bonds issued, at both fixed rate and mixed rate;
- specific hedges of fixed-rate assets, including both BTPs and corporates;
- specific hedges of BTP Strips;
- specific hedges of government securities linked to European and Italian inflation;
- specific hedge of a fixed-rate loan (granted to BCC Solutions, a company belonging to the Iccrea Banking Group);
- specific hedges of fixed-rate deposits;
- generic hedges of fixed-rate securities (assets) denominated in euros;
- generic hedges of fixed-rate securities (assets) denominated in dollars;
- generic hedges of fixed-rate loans (assets).

In order to hedge changes in fair value generated by interest rate risk, the Bank used unlisted derivatives, summarized as follows:

- interest rate swaps (IRSs) for specific hedges of bonds issued;
- asset swaps (ASWs) for specific hedging of assets (fixed-rate and inflation-linked BTPs, corporate securities);
- interest rate swaps with an increasing notional to hedge BTP Strips;
- interest rate swaps with an amortizing notional for a specific hedge of the loan and generic hedges of the securities portfolios;
- overnight indexed swaps (OISs) for specific and generic hedges of loans (assets).

B. CASH FLOW HEDGES

The Bank has established specific cash flows hedges for bond issues denominated in dollars: the purposes of the these transactions are to stabilize cash flows and, more generally, stabilize funding conditions both with respect to the interest rate risk and exchange rate risk. The financial instruments designated as hedging instruments are unlisted cross currency swaps, which also provide for the exchange of notional amounts expressed in the two currencies both at the inception and the expiry of the transaction, at the exchange rate set at the trade date.

The periods in which the Bank expects the cash flows related to these contracts to materialize and impact profit or loss coincide with the contractual payment dates for the coupons and principal of the bonds.

C. HEDGES OF FOREIGN OPERATIONS

The Bank did not use this form of hedge.

D. HEDGING INSTRUMENTS

Effectiveness tests are conducted using the dollar offset method for retrospective tests and the cumulative scenario approach for prospective tests. There were no sources of ineffectiveness at the preparation date of these financial statements, with the exception of limited mismatches between the outstanding quantities of hedged bonds and the notional amount of the corresponding hedging derivatives, mainly attributable to liabilities denominated in dollars and designated as cash flow hedges. Item 90 of the income statement "Net gain (loss) on hedging activities" shows a total negative balance of €2.8 million.

E. HEDGED ITEMS

The hedges are structured as follows:

- specific hedges of bonds issued, both at fixed rate and mixed rate: hedges of exposure to interest rate risk;
- specific hedges of fixed-rate securities (assets), including both BTPs and corporates: hedges of exposure to interest rate risk;
- specific hedges of BTP Strips: hedges of exposure to interest rate risk;
- specific hedges of government securities linked to European and Italian inflation: hedges of exposure to interest rate risk and inflation;
- specific hedge of a fixed-rate loan (granted to BCC Solutions, a company belonging to the Iccrea Banking Group): hedge of exposure to interest rate risk;
- specific hedges of fixed-rate loans (assets): hedges of exposure to interest rate risk;
- generic hedges of fixed-rate securities (assets) denominated in euros: hedges of exposure to interest rate risk;
- generic hedges of fixed-rate securities (assets) denominated in dollars: hedges of exposure to interest rate risk;
- generic hedges of fixed-rate loans (assets): hedges of exposure to interest rate risk;
- specific cash flow hedges of bond issues denominated in dollars: hedges of exposure to interest rate risk and exchange rate risk.

SECTION 4 – LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (**funding liquidity risk**);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (**market liquidity risk**).

The framework for managing liquidity and governing liquidity risk within the Iccrea Banking Group is based on the centralization of those activities with Iccrea Banca.
That framework is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

Iccrea Banca is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis for the Group by Iccrea Banca, which performs the following functions:
    - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
    - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
    - funding the securities portfolio at the Group level;
    - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
    - managing open market operations with the ECB.
- the management of structural liquidity is centralized with Iccrea Banca, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
    - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..);
    - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by Iccrea Banca in its role as the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – which is divided into two complementary levels:
  - *intraday and very short-term liquidity*: monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - *short-term liquidity*: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- **structural liquidity** – identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The operating maturity ladder is constructed in accordance with the rules issued by the Bank of Italy as part of its periodic monitoring and it comprises a time horizon of up to 12 months. The Group's liquidity profile is represented in five main sections:

- transactions with institutional counterparties, which includes positions with the central bank, market counterparties and the interbank market, assuming no roll over of maturing positions;
- transactions with Corporate/Large Corporate customers;
- treasury forecasts;
- securities and finance operations;
- counterbalancing capacity.

This operational liquidity monitoring system makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder used in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions

issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model. Liquidity risk is monitored by the Risk Management unit of Iccrea Banca. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of Iccrea Bank, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

STRESS TEST FRAMEWORK

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to discharge planned obligations over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy;
- **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Group. IN defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;

- **stress scenarios generated by a combination of specific and systemic events**, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

Each scenario incorporates shocks generated by the Amin risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

The various types of operational risk to which the Bank is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the countless national and international regulations to which the Bank is subject.

The organizational model adopted by the Bank within the Group to supervise and manage operational risk is structured on two levels:

- an Operational & IT Risk Management unit was established at the **Parent Company**, reporting to the Risk Management department which handles operational and IT risks at the Group level, acting as a specialized hub responsible for providing guidance, coordination and technical support to the various Risk Management units of the companies in the Group;
- the Risk Management units of the banking/financial **subsidiaries** report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The **management framework for operational risks** is described in the "Operational Risk Management Policy" adopted in July 2017. That framework is structured into five macro-phases:

1. **Identification of risks:** this phase managed comprises Loss Data Collection, aimed at identifying recognized operational losses ex post, and the operational risk self-assessment, which assesses the potential operational risk exposure for each risk factor/process;
2. **Evaluation/measurement of identified risks** provides for the definition of methods to determine the level of exposure to operational risks (e.g. Operational Risk Value at Risk), to flank the measurement carried out for regulatory purposes;
3. **Risk prevention and mitigation,** the phase in which actions and/or techniques are put in place to:
    - prevent the occurrence of unfavorable events inside and outside the organization;
    - mitigate the impact of the manifestation of the event or the occurrence of unfavorable developments
4. **Monitoring and reporting,** the phase in which activities and analysis on the developments in operational risks are presented to top management, the managers of the risk factors and the business and specialist units**;**
5. **Risk management and mitigation:** the phase dedicated to implementing the strategies to contain operational risk at levels consistent with the risk appetite established by the Board of Directors through the execution of activities by risk factor managers and business units.

During the first half of 2018, the activities connected with the evolution of the Group's operational risk management framework were completed. Specifically, the activities involved the risk identification, assessment and measurement phases envisaged by the framework.

With regard to the loss data collection process, during the first half of 2018 activities to refine the process in terms of the completeness and accuracy of the data collected by the reporting units continued.

With regard to the broader area operational and IT risks, in January 2018 the Group policy connected with the IT Risk Management Framework was completed, integrating the elements connected with cyber risk. In addition, during the first quarter of 2018 the IT Risk Assessment activities were completed to update the IT Risk Profile of Iccrea Banca and prepare the summary report on ICT Risk.

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the basic indicator approach.
Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is "gross income".
In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €36,666 thousand.

PART F - Information on capital

SECTION 1 - COMPANY CAPITAL

A. QUALITATIVE DISCLOSURES

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business.
Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. QUANTITATIVE DISCLOSURES

B.1 COMPANY CAPITAL: COMPOSITION

	Total 30/06/2018
1. Share capital	1,151,045
2. Share premium reserve	4,747
3. Reserves	415,591
- earnings	-
a) legal	50,784
b) established in bylaws	205
c) treasury shares	-
d) other	362,600
- other	2,002
4. Equity instruments	-
5. (Treasury shares)	(24,724)
6. Valuation reserves:	35,206
- Equity securities designated as at fair value through other comprehensive income	(7,876)
- Hedges of equity securities designated as at fair value through other comprehensive income	(850)
- Financial assets measured at fair value through other comprehensive income	(6,318)
- Property and equipment	-
- Intangible assets	-
- Hedging of investments in foreign operations	-
- Cash flow hedges	-
- Hedging instruments [undesignated elements]	-
- Foreign exchange differences	-
- Non-current assets held for sale	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-
- Actuarial gains (losses) on defined benefit plans	(1,812)
- Share of valuation reserves of equity investments accounted	-
- Special revaluation laws	52,062
7. Net profit (loss) for the period	(59,498)
Total	**1,522,366**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total	30/6/2018
	Positive reserve	Negative reserve
1. Debt securities	-	(6,318)
2. Equity securities	-	(7,876)
3. Loans	-	-
Total	**-**	**(14,194)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

2.1 Own funds

QUALITATIVE DISCLOSURES

Own funds, risk-weighted assets and solvency ratios have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision ("Basel 3") within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.

IFRS 9 has been in force as from January 1, 2018. It establishes a new framework for calculating the provisions based on expected loss rather than on incurred loss. The Bank has elected to the option of applying the transitional adjustment for IFRS 9 referred to in Article 473a of the CRR. Accordingly, the calculation of own funds, capital requirements and ratios reflect the impact of the application of the new standard only partially (only 5%).

At June 30, 2018 own funds amounted to €1,629 million, as against a total capital requirement of €339,989 million, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

1. COMMON EQUITY TIER 1 (CET1) CAPITAL

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,606,589 thousand. Applying prudential filters, represented by the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €1,202 thousand. CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,605,387 thousand. The elements to be deducted consist of intangible assets and deferred tax assets based on future profitability, net of deferred tax liabilities, and amount to €-114,133 thousand, while the positive impact of the transitional system on CET 1 comes to €7,247 thousand and is represented by the negative actuarial reserves (IAS 19) and the transitional adjustment for first time application of IFRS 9. Therefore, CET1 amounts to €1,498 million.

2. ADDITIONAL TIER 1 (AT1) CAPITAL

There are no instruments that are included under Additional Tier 1 (AT1) capital in these financial statements.

3. TIER 2 (T2) CAPITAL

Tier 2 (T2) capital, before the application of the filters provided for under the transitional system, amounts to €130,562 thousand and is composed of three subordinated bonds issued by the Bank, net of the redeemable portion. As a result of the transitional provisions, there is a positive filter of unrealized gains on AFS securities amounting to €1,220 thousand, bringing the total Tier 2 capital to €131,782 thousand.
The following are the characteristics of the subordinated lower Tier II bonds:

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €106,600 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11,737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest rate 6M Euribor + 350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption..

QUANTITATIVE DISCLOSURES

	Total at 30/06/2018
A. Common Equity Tier1 (CET1) capital before the application of prudential filters	**1,606,589**
of which CET1 instruments subject to the transitional provisions	-
B. CET1 prudential filters (+/-)	**(1,202)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**1,605,387**
D. Elements to be deducted from CET1	**(114,133)**
E. Transitional system - Impact on CET1 (+/-)	**7,247**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,498,501**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system	-
of which AT1 instruments subject to the transitional provisions	-
H. Elements to be deducted from AT1	-
I. Transitional system - Impact on AT1 (+/-)	-
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	-
M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system	**134,600**
of which Tier 2 instruments subject to the transitional provisions	-
N. Elements to be deducted from T2	**(4,038)**
O. Transitional system - Impact on T2 (+/-)	**-**
P. Total Tier 2 (T2) capital (M - N +/- O)	**130,562**
Q. Total own funds (F + L + P)	**1,629,063**

2.2 Capital adequacy

QUALITATIVE DISCLOSURES

The capital ratios at June 30, 2018, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

QUANTITATIVE DISCLOSURES

	Unweighted amounts	Weighted amounts/requirements
	Total at 30/06/2018	Total at 30/06/2018
A. EXPOSURES		
A.1 CREDIT AND COUNTERPARTY RISK	**64,665,258**	**3,348,119**
1. Standardized approach	64,659,606	3,342,467
2. IRB approach		
2.1 Foundation		
2.2 Advanced		
3. Securitizations	5,652	5,652
B. CAPITAL REQUIREMENTS		
B.1 CREDIT AND COUNTERPARTY RISK		**267,850**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING		**13,410**
B.3 SETTLEMENT RISK		
B.4 MARKET RISKS		**22,063**
1. Standardized method		22,063
2. Internal models		
3. Concentration risk		
B.5 OPERATIONAL RISK		**36,666**
1. Basic indicator approach		36,666
2. Standardized approach		
3. Advanced measurement approach		
B.6 OTHER COMPONENTS		
B.7 TOTAL PRUDENTIAL REQUIREMENTS		**339,989**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS		
C.1 RISK-WEIGHTED ASSETS		**4,249,857**
C.2 CET1 CAPITAL RATIO		**35.26%**
C.3 TIER1 CAPITAL RATIO		**35.26%**
C.4 TOTAL CAPITAL RATIO		**38.33%**

PART G – Business combinations

The section was not completed as there were no such positions as of the balance sheet date.

PART H - Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following tables report the information required under IAS 24 concerning the remuneration of directors and top managers, as well as the members of the Board of Auditors.

	TOTAL AT 30/06/2018
Compensation and other remuneration	1,335
Post-employment benefits	5

	TOTAL AT 30/06/2018
Compensation of members of Board of Auditors	146

LOANS AND GUARANTEES ISSUED:

	TOTAL At 30/06/2018
- Members of Board of Directors	419
- Members of Board of Auditors	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The following tables report the balance sheet and income statement items involved in intercompany transactions:

ASSETS	A20_FINANCIAL ASSETS AT FAIR VALUE	A41_FINANCIAL ASSETS MEASURED AT AMORTIZED COST: DUE FROM BANKS	A42_ FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO CUSTOMERS	A120_OTHER ASSETS
BANCA SVILUPPO	27	51,301		924
BCC BENI IMMOBILI			7,505	5
BCC CREDITOCONSUMO			765,588	2,473
BCC FACTORING			387,857	218
BCC GESTIONE CREDITI			341	905
BCC LEASE			369,466	76
BCC RETAIL				4
BCC RISPARMIO E PREVIDENZA				3,066
BCC SISTEMII INFORMATICI				1,459
BCC SOLUTIONS			46,821	3,248
ICCREA BANCAIMPRESA	42,765	6,555,400		15,648
VENTIS			2,362	24
TOTAL	**42,792**	**6,606,701**	**1,579,940**	**28,050**

LIABILITIES	P11_FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO BANKS	P12_ FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO CUSTOMERS	P13_ FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: SECURITIES ISSUED	P20_FINANCIAL LIABILITIES HELD FOR TRADING	P100_ OTHER LIABILITIES
BANCA SVILUPPO	240,660		400,445	219	313
BCC BENI IMMOBILI					49
BCC CREDITOCONSUMO		19,720			62
BCC FACTORING		83			1,255
BCC GESTIONE CREDITI		4,842			426
BCC LEASE		3,015			3,399
BCC RETAIL		9			33
BCC RISPARMIO E PREVIDENZA		10,701			361
BCC SISTEMII INFORMATICI		621			9,376
BCC SOLUTIONS		7,283			517
ICCREA BANCAIMPRESA	46,122			3,283	26,667
VENTIS					61
TOTAL	**286,782**	**46,274**	**400,445**	**3,502**	**42,519**

INCOME STATEMENT	E10_INTEREST AND SIMILAR INCOME	E20_INTEREST AND SIMILAR EXPENSE	E40_ FEE AND COMMISSION INCOME	E50_ FEE AND COMMISSION EXPENSE	E80_ NET GAIN (LOSS) ON TRADING ACTIVITIES	E160_ ADMINISTRATIVE EXPENSES	E200_ OTHER OPERATING EXPENSES/INCOME
BANCA SVILUPPO	117	(2,442)	777	(2,101)	(3)	204	399
BCC BENI IMMOBILI	53						7
BCC CREDITOCONSUMO	6,988		90			126	230
BCC FACTORING	214	(2)	12			52	101
BCC GESTIONE CREDITI	3		3			(271)	67
BCC LEASE	1,607		87			20	70
BCC RETAIL						(21)	44
BCC RISPARMIO E PREVIDENZA						295	447
BCC SISTEMII INFORMATICI						(7,888)	252
BCC SOLUTIONS	484		1			(11,950)	228
ICCREA BANCAIMPRESA	27,975	(2,676)	142	(1)	5,513	27	2,852
VENTIS	44					(880)	24
TOTAL	**37,485**	**(5,120)**	**1,112**	**(2,102)**	**5,510**	**(20,286)**	**4,721**

The item “E160 Administrative expenses” has a positive value with certain intercompany counterparties for which reimbursements of personnel expenses exceed other administrative expenses.

The following table reports the additional information required under IAS 24.

	TOTAL AT 30/06/2018			
	GROUP COMPANIES	ASSOCIATES AND OTHER RELATED PARTIES	TOP MANAGEMENT	EMPLOYEE POST-EMPLOYMENT BENEFITS
Financial assets measured at fair value				
Financial assets FVTOCI				
Financial assets AC: Due from banks				
Financial assets AC: Loans to customers	(2,362)	(263)	(304)	
Equity investments				
Other assets				
TOTAL ASSETS	**(2,362)**	**(263)**	**(304)**	**-**
Financial liabilities AC: Due to banks				
Financial liabilities AC: Due to customers	6,130	51,844	5	
Financial liabilities AC: Securities issued				
Financial liabilities held for trading				
Other liabilities				
TOTAL LIABILITIES		**51,844**	**5**	**-**
GUARANTEES ISSUED AND COMMITMENTS	**850**	**1,000**	**-**	**-**

	TOTAL AT 30/06/2018			
	GROUP COMPANIES	ASSOCIATES AND OTHER RELATED PARTIES	TOP MANAGEMENT	EMPLOYEE POST-EMPLOYMENT BENEFITS
Interest and similar income	54	1		
Interest and similar expense				
Fee and commission income		147		
Fee and commission expense		(246)		
Net gain (loss) on trading activities				
Administrative expenses:			(1,484)	
Other operating expenses/income				

PART I - Share-based payments

As at the reporting date, the bank had no payment agreements based on its own equity instruments in place.

PART L – Operating segments

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions. The Bank's main income statement and balance sheet aggregates are reported below.

PRIMARY REPORTING BASIS

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured.

These segments are:

- finance and lending;
- payment systems

In addition to central governance and support functions, as well as the institutional services functions grouped under the "Corporate Center".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Proprietary Finance and Trading, Treasury and Foreign Exchange, Institutional Sales, Securitizations and Institutional Lending, while the payment systems segment comprises Collections and Payments, E-Bank and Payment Systems and International Applications. For a discussion of the individual segments, please see the section on the Bank's activities in the report on operations.

INCOME STATEMENT

The following reports the main aggregates of the income statement by business segment. The figures are presented using the reclassified income statement format given in the report on operations.

	Finance and lending		Payment services		Corporate center		Total	
(thousands of euros)	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17
Net interest income	30,019	14,143	(560)	(361)	(3,389)	(104)	26,070	13,678
Net service income	(47,593)	25,395	62,786	51,254	49,697	45,325	64,889	121,974
Total revenues	**(17,574)**	**39,538**	**62,226**	**50,893**	**46,308**	**45,221**	**90,960**	**135,652**
Administrative expenses	47,609	20,867	51,007	44,970	62,897	60,672	161,513	126,508
Net adjustments of property and equipment and intangible assets	914	1,197	1,187	1,358	1,262	1,240	3,363	3,795
Other operating expenses/income	104	204	5,206	6,532	8,977	6,280	14,286	13,016
Total operating expenses	**48,420**	**21,860**	**46,988**	**39,795**	**55,182**	**55,631**	**150,590**	**117,287**
Gross operating income	**(65,994)**	**17,678**	**15,238**	**11,098**	**(8,874)**	**(10,410)**	**(59,630)**	**18,365**

As regards the procedures for the determination of performance:

- net interest income is calculated by segment as the difference between actual interest and imputed interest on the treasury pool;
- net service income is calculated by way of direct allocation of income and expense components;

operating expenses are allocated using a "full costing" approach that allocates all operating costs.

Net interest income as at June 30, 2018 came to €26.1 million, up by 90.6% compared with June 30, 2017 (€13.7 million). The increase in 2018 substantially reflects the yield on BTPi, which at June 30 accounted for just under half of the portfolio. Their amortized cost includes the revaluation of principal calculated on the basis of Eurostat's

consumer price index. At the start of June, the limits on the management of securities in the HTC portfolio were increased (from €6 billion to €11.5 billion), with the concomitant establishment of the tactical portfolio, which at June 30 amounted to €4.2 billion, comprising government securities with a duration of 6 months and yield of 55 bps (including funding consisting of repurchase transactions with the same duration).

The comparison with 2017 shows:

- an increase in the yields on the securities investment portfolios (an average of +45 bps), on financing of loans (+48 bps) and intercompany financing through loans and subscription of Iccrea BancaImpresa bonds (+12 bps), generating increases in interest income of €10.5 million, €1.8 million and €0.9 million respectively. The securities portfolio posted gains despite the decrease in volumes managed through the investment portfolio (€-1.5 billion);
- for the funding of the securities investment portfolio and intercompany securities/loans, the decline in the cost of structural funding of €4.5 million (€6.9 billion, up €1 billion on 2017 but with a yield of 144 bps compared with 183 bps) was attenuated by the replacement of EONIA with other forms of funding (TLTRO at 0 bps), which reduced the gain on FPT funding to €1.1 million. The increase in structural funding also includes greater funding revenue against loans (+€1 million) and headquarters portfolios (+€0.6 million, mutual bank bonds AT1);
- a decrease of €6.8 billion in treasury funding, mainly reflecting the impact on the secured segment of the replacement of €9 billion in repurchase transactions with €3.5 billion in TLTRO funds. On the lending front, the contraction in funding translated into a decline in collateralized lending to the mutual banks (-€6 billion), with an overall negative impact of €3.5 million, which rise to €6.4 million including the TLTRO effect in 2017 associated with headquarters. By contrast, the reduction in EONIA funding to finance the securities portfolio generated a gain of €4.4 million.

In terms of the cost of funding, at June 2018, the following factors were involved:

- fixed-term deposits of €2.3 billion with an average rate of 61 bps (€2.6 billion at 43 bps in 2017);
- structural FPT funding of €6.9 billion with an average rate of 144 bps (€5.9 billion at 183 bps in 2017);
- daily settlement account of €3.9 billion, remunerated at -26 bps (€5.2 billion at 0 bps in 2017);
- secured treasury funding of €21.3 billion with an average rate of -47 bps (€26.7 billion at -23 bps in 2017)

Net service income, which came to about €64.9 million at June 30, 2018 includes €75.7 million from net fees and €-10.8 million from trading operations and dividends. The increase in net fees and commissions and other income from €63.2 million in June 2017 to €75.7 million in June 2018, is mainly attributable to the expansion in the e-money segment due to the combined effect of the repricing fee on debt and acquiring applied since October 2017 and the increase in transaction volumes. Conversely, the collections segment posted a decline due to the virtually complete elimination of transaction handling by the mutual banks participating in the CCB Group, which at June 30 posted fees and commissions of €1.3 million, compared with €4.2 million over the same period of 2017. Fees and commission from the mutual banks joining the MBG rose by €0.5 million to €13.8 million, thanks to an improvement in performance on SEPA SCT/SDD products and electronic invoicing. Collections by the new mutual banks joining the MBG have not yet been activated (only Chianti Banca and Annia should generate about €1.5 million a year).

The decrease in net gains and losses from financial transactions, from €58.7 million in June 2017 to €-10.8 million in June 2018 is mainly attributable to:

- the contraction in revenue on the financial portfolio (€-62.8 million) and on securities measured at fair value under the FVO (€-7.2 million). The result for 2018 reflects the gain realized with the partial disposal of the strategic portfolio and the consolidation of the loss from the negative OCI reserve on the investment portfolio. Another factor was the sale of the securities that made up the liquidity portfolio, which was divested and reformed with HTC securities at the start of the year as a result of the FTA of the new IFRS 9;
- the increase in dividends (+€16.6 million).

Administrative expenses, which totaled €161.5 million at June 30, 2018, included personnel expenses of €42.3 million, compared with €38.8 million in June 2017 and other administrative expenses of €119.3 million, compared with €87.6 million in June 2017.

Total net adjustments amounted to about €3.4 million at June 30, 2018 down €0.4 million compared with June 2017 (€3.8 million).

Other operating income, included in total operating expenses, came to €14.3 million at June 30, 2018, compared with €13 million in June 2017.

As a result of these developments, gross operating income at June 30, 2018 amounted to about €-59.6 million, a decrease of about €78 million on June 2017.

BALANCE SHEET

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. The amounts are end-period figures. Liabilities include share capital, reserves and net profit for the period.
The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(MILLION OF EUROS)	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17
Cash and loans to customers	15,211	5,985	-	-	73	98	15,284	6,083
Due from banks	24,593	24,561	-	-	-	-	24,593	24,561
Other assets	1,443	3,375	28	33	1,532	1,966	3,003	5,374
TOTAL LENDING	**41,247**	**33,921**	**28**	**33**	**1,605**	**2,064**	**42,880**	**36,018**
Due to customers	15,344	7,717	456	507	11	20	15,811	8,244
Due to banks	19,528	19,401	-	-	-	-	19,528	19,401
Other liabilities	5,776	6,588	-	-	1,765	1,785	7,541	8,373
TOTAL FUNDING	**40,648**	**33,706**	**456**	**507**	**1,776**	**1,805**	**42,880**	**36,018**

SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.

REPORT OF THE AUDIT FIRM

June 30, 2018

Iccrea Banca S.p.A.

Interim condensed financial statements as of June 30, 2018

Review report on the interim condensed financial statements
(Translation from the original Italian text)

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Review report on the interim condensed financial statements
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim condensed financial statements, comprising the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows for the six-month period then ended and the related notes to the financial statements of Iccrea Banca S.p.A. as of June 30, 2018. The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the interim condensed financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements of Iccrea Banca S.p.A. as of June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, October 3, 2018

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers

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CONSOLIDATED REPORT ON OPERATIONS

June 30, 2018

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1. DEVELOPMENTS IN GROUP OPERATIONS

THE BALANCE SHEET

To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in the 5th update of Circular no. 262/05 of the Bank of Italy.

The comparative balance-sheet figures for the previous year given in the following tables were determined by reclassifying the items envisaged in the 4th update of Circular no. 262/05.

Consolidated assets

€/thousands	30/6/2018	31/12/2017
Cash and cash equivalents	82,779	110,641
Financial assets measured at fair value through profit or loss	770,908	483,169
Financial assets measured at fair value through other comprehensive income	333,850	3,118,484
Financial assets measured at amortized cost:	41,629,651	32,591,098
a) due from banks	18,053,013	17,569,433
b) loans to customers	23,576,638	14,715,284
Hedging derivatives and value adjustments of macro-hedged financial assets	6,284	6,721
Equity investments	112,507	111,676
Property and equipment	703,854	734,014
Intangible assets	52,064	49,409
Tax assets and other assets	680,016	730,844
Non-current assets and disposal groups held for sale	313,276	220,286
Total assets	**44,685,189**	**38,127,486**

Total consolidated assets at June 30, 2018 amounted to €44.7 billion, up €6.5 billion (+17.2%) compared with December 31, 2017. The increase compared with 2017 mainly reflects:

- the sale of all government securities held in the investment book (HTCS) as a result of implementation of a stop-loss decision following the increase in the spread at the end of May;
- the purchase of government securities recognized at amortized cost to implement the HTC portfolio up to €10 billion, about half of which maturing within this year;
- the reduction in loans to customers as a result of a decline in repurchase transactions with the Clearing and Guarantee Fund in the amount of about €1.5 billion.

Amounts due from banks (€18 billion) are broadly unchanged compared with the end of the previous year, the net effect of the decline in the liability for reserve requirement funds of the mutual banks (-0.5 billion) and an increase in collateralized loans (+0.6 billion).

A substantial portion of amounts due from banks is represented by financing granted to the mutual banks under the pool collateral mechanism.

At June 30, 2018, net impaired loans to customers amounted to €1.29 billion (€1.35 billion at December 31, 2017), equal to 11.7% of total net lending (12.1% at the end of December 2017). The ratio of net bad debts to loans was 4.6% (5.2% at December 31, 2017), while the ratio of net positions unlikely to be repaid to loans was 6.4%

(unchanged on December 31, 2016). Gross impaired assets amounted to €2.58 billion, essentially unchanged on the previous year (€2.54 billion). The ratio of gross impaired assets to gross loans was 20.5% (essentially unchanged on December 31, 2016). In the calculation of these ratios, loans to customers do not include receivables from the Clearing and Guarantee Fund and the loans of Banca Sviluppo and Iccrea BancaImpresa for which a securitization with a GACS guarantee is under way.

The coverage ratio for impaired assets was 48.6%, an improvement on December 2017 (47%). More specifically the coverage ratio was 62.3% for bad debts – an increase of 4 percentage points on the end of the previous year (58.3%) – and 34% for unlikely-to-pay positions, in line with the previous year (34.3%). The coverage ratio for bad debts reflects bad debts acquired through the Lucrezia vehicle, which are recognized in the consolidated accounts at their transaction value rather than their nominal value, in accordance with the applicable accounting standards. Excluding that transaction, in which Iccrea Banca has undertaken to subscribe all of the notes issued by the vehicle, the Group's coverage ratio for bad debts at June 30, 2018 was 67.9%.

Holdings of financial assets measured at fair value through other comprehensive income (formerly classified as financial assets available for sale) amounted to €334 million following the sale of government securities mentioned above (-89% on the previous year) and mainly comprise government securities and minority equity interests.

Financial assets measured at fair value through profit or loss mainly comprise financial assets held for sale (€563 million), largely financial derivatives on interest rates and indices with a positive fair value held for trading purposes, and other financial assets mandatorily measured at fair value (€208 million).

Debt securities classified as financial assets measured at amortized cost amounted to €11.1 billion, a substantial increase compared with the end of the previous year as a result of purchases during the first half in execution of the new investment strategy mentioned above. As noted, about half of those securities mature within this year.

Equity investments, which are not classified as financial assets measured at fair value through other comprehensive income, comprise interests in associated companies and amounted to €112.5 million (€111.7 million at December 31, 2017), in line with the close of the previous year.

Property and equipment primarily includes properties owned and used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securfondo and the Securis Real Estate real estate funds). The decrease of €30 million compared with 2017 includes a €9.5 million decline in the value of the properties managed by the Securis Real Estate real estate funds.

Intangible assets include €21.7 million in goodwill paid for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici), unchanged on December 31, 2016. Other intangible assets amounted to €30.4 million and mainly regard software, which increased by €1.7 million compared with 2017 for a number of reasons, including the costs incurred in connection with the formation of the Mutual Banking Group.

Other assets amounted to €357.5 million, a decrease of €80 million on December 31, 2017, mainly reflecting a number of temporary items settled in the first few days of the month following the close of the year.

Non-current assets held for sale amounted to €313.3 million and comprise €46 million in loans of Banca Sviluppo and Iccrea BancaImpresa that are involved in a securitization with a GACS guarantee and, for the remainder, assets of the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

Consolidated liabilities

€/thousands	30/6/2018	31/12/2017
Financial liabilities measured at amortized cost	41,587,212	34,992,832
a) due to banks	19,333,544	19,235,105
b) due to customers	17,389,041	10,068,859
c) securities issued	4,864,627	5,688,866
Financial liabilities held for trading	517,137	356,450
Financial liabilities designated as at fair value and hedging derivatives	85,527	56,908
Liabilities associated with assets held for sale	437,311	282,047
Other liabilities and tax liabilities	454,474	673,622
Provisions for risks and charges and termination benefits	111,928	89,345
Shareholders' equity	1,491,601	1,672,282
Total liabilities and equity	**44,685,189**	**38,127,486**

Amounts due to banks (excluding bonds) amounted to €19.3 billion, essentially unchanged on December 31, 2017, the impact of an increase in amounts due in respect of current accounts and a decrease in repurchase transactions.

Amounts due to customers amounted to €17.4 billion, up 73% on the previous year, the effect of an increase in funding through repurchase transactions with the Clearing and Guarantee Fund to finance an increase in investments in government securities.

Securities issued amounted to €4.9 billion, down €0.8 billion on December 31, 2017 (€5.7 billion) due to the maturing of a number of securities, net of new bond issues on the market.

Liabilities associated with assets held for sale totaled €437 million and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

Consolidated shareholders' equity

The composition of consolidated shareholders' equity is as follows.

€/thousands	30/6/2018	31/12/2017
Share capital	1,151,045	1,151,045
Share premium reserve	4,747	4,747
Valuation reserves	40,302	73,569
Reserves	312,427	352,141
Profit (loss) for the period (+/-)	(73,122)	29,357
Equity pertaining to shareholders of the Parent Company	**1,435,399**	**1,610,859**
Equity pertaining to non-controlling interests (+/-)	**56,202**	**65,423**
Total shareholders' equity	**1,491,601**	**1,676,282**

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.5 billion, down €185 million on December 31, 2017, mainly reflecting the combined effect of:

- the recognition of the negative FTA IFRS 9 reserve of €82.6 million;
- the loss for the period of €73.1 million;
- the reduction in the OCI reserve of about €33 million, mainly owing to the sales of securities during the period.

The income statement

€/thousands	30/6/2018	30/6/2017
Net interest income	**156,394**	**156,445**
Net fee and commission income	**112,374**	**100,264**
Dividends, net gain (loss) on trading activities, net gain (loss) on hedging and net gain (loss) on assets and liabilities at FVTPL	5,395	11,681
Net gain (loss) on disposals	(48,189)	24,778
Gross income	**225,974**	**293,177**
Net writedowns/writebacks for credit risk	(52,630)	(71,702)
Net income (loss) from financial operations	**173,344**	**221,475**
Administrative expenses:	(266,410)	(236,896)
a) personnel expenses	(97,666)	(94,181)
b) other administrative expenses	(168,744)	(142,715)
Depreciation, amortization and provisions	(14,616)	(14,997)
Other operating expenses/income	44,121	48,651
Operating expenses	**(236,905)**	**(202,743)**
Profit (loss) from equity investments	3,674	2,769
Net gain (loss) from fair value measurement of property and equipment and intangible assets	(9,522)	(9,758)
Profit (loss) from disposal of investments	**297**	**-**
Profit (loss) before tax on continuing operations	**(69,112)**	**11,742**
Income taxes on income from continuing operations	**(991)**	**(158)**
Net profit (loss) pertaining to non-controlling interests	**3,019**	**2,403**
Net profit (loss) pertaining to the Iccrea Group	**(73,122)**	**9,180**

The period close with a net loss pertaining to shareholders of the Parent Company of €73.1 million, reflecting significant costs connected extraordinary events, which adversely impacted performance, including:

- the strategy of disposing entirely of the securities in the investment book (HTCS business model) as a result of a stop-loss strategy following the increase in the spread on government securities showing a capital loss of €76 million. That strategy involved a repositioning towards the HTC portfolio to improve the Group's net interest income in the coming years;
- the contribution to the National Resolution Fund (BRRD) totaling €34.8 million. The contribution also included an extraordinary component of €9.5 million called up by the Resolution Fund in respect of 2016;
- the additional administrative expenses for the establishment of the MBG in the amount of about €7.2 million.

According to management estimates, spreading the costs of the Resolution Fund costs over the entire year and not considering the capital losses on securities and the one-off costs of the MBG project, profit before tax would be about €31 million.

More specifically, **gross income** reflected the following developments:

- net interest income amounted to €156.4 million, essentially unchanged compared with the same period of 2017, reflecting the net effect of the greater contribution of government securities and the reduction in the margin in the corporate and retail segments;

- net fee and commission income amounted to €112.4 million, up €12.1 million (+12%) compared with the first half of 2017 (€100.3 million) as a result of the growth in the electronic money and asset management segments;
- the result of disposals shows a net loss of €48.2 million, a significant deterioration from the net gain posted in the first half of 2017 (€24.8 million), reflecting:
  - a net loss on the disposal of financial assets (-€63.4 million), including the impact of the loss of €76 million on the divestment of the entire investment portfolio cited above;
  - a gain on the disposal of financial assets measured at amortized cost of €17.3 million;
  - a loss on the repurchase of securities issued amounting to €2 million.

As regards **operating expenses**, the following developments occurred in the period:

- personnel expenses amounted to €97.7 million, an increase of €3.5 million on the same period of 2017, reflecting the expansion of human resources at the Parent Company;
- other administrative expenses amounted to €168.7 million, an increase of €26 million on the first half of last year. The increase mainly reflected higher National Resolution Fund contributions paid and fully expensed in the first half (+11.7 million on the first half 2017, mainly owing to additional contributions paid in respect of 2016) and the costs of the establishment of the MBG (€7.2 million in 2018, none in the first half of 2017), as well as the costs associated with Iccrea Banking Group projects and IT, marketing and logistics costs.

Net writedowns for credit risk (€52.6 million, compared with impairment adjustments of €71.7 million in the first half of 2017 including the impairment loss of €22.1 million on the Atlante fund) include €52.5 million in net writedowns of loans measured at amortized cost (€46.7 million in the first half of 2017).

Net gain (loss) from fair value measurement of property and equipment showed net loss of €9.5 million (-€9.7 in the first half of 2017), reflecting the reduction in the value of properties managed by the real estate investment funds held by the Group.

Consolidated own funds and capital ratios at June 30, 2018

The following table offers a breakdown of **own funds** at June 30, 2018, which amounted to €1.64 billion.

Capital and capital ratios - €/thousands	30/06/2018	31/12/2017*	change
- Share capital	1,151,045	1,151,045	-
- Share premium reserve	4,747	4,747	-
- Treasury shares	(24,724)	(30,847)	6,123
- Earnings reserves	387,033	432,627	(45,594)
- Net profit for the period	(70,055)	-	(70,055)
- Other comprehensive income	(11,767)	21,498	(33,265)
- Transitional provisions	99,845	(86)	99,931
- Goodwill	(16,411)	(16,415)	4
- Deductions – deferred tax assets	(20,626)	(19,368)	(1,258)
- Intangible assets	(12,143)	(12,594)	451
- Prudential filters	(1,297)	(2,475)	1,178
- Non-controlling interests	22,344	26,930	(4,586)
Common Equity Tier 1 (CET1 ratio)	**1,507,328**	**1,555,062**	**(47,734)**
Additional Tier 1 (AT1)	4,466	5,661	(1,195)
Tier 1 (T1)	**1,511,794**	**1,560,723**	**(48,929)**
- Eligible subordinated loans and eligible AFS reserves	134,928	137,610	(2,682)
Tier 2 (T2)	**134,928**	**137,610**	**(2,682)**
Total own funds (TC)	**1,646,722**	**1,698,333**	**(51,611)**

* The presentation of 2017 reflects the reclassification of the reserves from special revaluation laws from other comprehensive income to "reserves – other".

More specifically, **Common Equity Tier 1** ("CET1") at June 30, 2018 amounted to €1,504 million, a decrease of €50.8 million compared with December 2017. The decline mainly reflects:

i) the loss for the period of €73.1 million;

ii) the change in earnings reserves, the net effect of net income from 2017 allocated to reserves (+€35.5 million) and the FTA reserve (€82.6 million), ascribable in the amount of about €99 million to impairment of loans, the latter subject to a 95% filter under the "transitional provisions";

iii) the change in the OCI reserve, the effect of the developments in government securities described earlier.

Tier 1 capital (T1) at June 30, 2018 includes part of the share capital of Banca Sviluppo subscribed by the mutual banks (minority interests) under the regulatory requirements referred to in Article 86 of the CRR.

Total **own funds** (TC) amounted to €1,647 million (€1,698 million at December 31, 2017), a decrease of €51.6 million mainly attributable to the reduction in CET 1 mentioned above.

Risk-weighted assets (RWA) at June 30, 2018, which break down as shown in the following table, amounted to €12.7 billion, down €160 million on December 31, 2017, mainly reflecting reduction in the exposure to credit risk, securitizations and the CVA, partly offset by the increase in the exposure to market risk.

(RWA) - €/thousands	30/6/2018	31/12/2017	change
Credit risk, securitizations and CVA	11,241,351	11,433,811	(192,460)
Market risk	275,787	243,391	32,396
Operational risks	1,157,212	1,167,254	-
Total RWA	**12,674,350**	**12,834,414**	**(160,064)**

At June 30, 2018, the **Common Equity Tier 1 Ratio** ("CET1") amounted to 11.89 (12.12% at December 31, 2017), greater than the 9.50% required under the SREP for 2018. The **Total Capital Ratio** (TCR) was 12.99% (13.23% at December 31, 2017), greater than the 10.75% - including the capital conservation buffer (CCB) applicable at the consolidated level as from January 1, 2017 – required under the SREP for the current year.

Capital ratios	30/06/2018	31/12/2017	change
CET 1 ratio	11.89%	12.12%	-0.23%
Total Capital Ratio	12.99%	13.23%	-0.24%

2. OTHER INFORMATION

This consolidated report on operations of the Iccrea Banking Group only includes comments on developments in Group operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to the consolidated financial statements or to the separate financial statements and the related report on operations.

In particular, please see to the notes to these consolidated financial statements with regard to:

- information on the Group's transactions with related parties, which are reported in Part H;
- information on financial and operational risks, which are discussed in Part E;
- the list of subsidiaries at June 30, 2018, which is reported in Part A;
- information on capital, which is reported in Part F.

Readers should instead consult the report on operations in the separate financial statements with regard to:

- information on the main risks and uncertainties;
- events subsequent to the reporting date and the outlook for operations;
- the main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation.

ATTACHMENT: RECONCILIATION OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND GROUP PROFIT AND EQUITY

	SHARE CAPITAL	RESERVES	VALUATION RESERVES	PROFIT FOR THE PERIOD	SHAREHOLDERS' EQUITY AT JUNE 30, 2018
Iccrea Banca SpA financial statements	**1,151,045**	**395,613**	**35,206**	**(59,499)**	**1,522,366**
Results of consolidated companies		(160,291)	(999)	30,486	**(130,804)**
Elimination of dividends received from Group companies		49,485		(49,485)	**-**
Results of companies accounted for with equity method		(25,871)	6,096	3,675	**(16,100)**
Increase in property values		21,784			**21,784**
Amortization of increase in property values		(8,750)		(325)	**(9,075)**
Goodwill		22,582			**22,582**
Adjustment of intercompany writedowns/(writebacks)		27,854	-	1,695	**29,549**
Reversal of internal hedges		(4,778)		313	**(4,465)**
Other consolidation adjustments		(459)	-	21	**(437)**
Pertaining to non-controlling interests	52,618	561	4	3,019	**56,201**
Consolidated shareholders' equity	**1,203,664**	**317,732**	**40,306**	**(70,103)**	**1,491,601**
Non-controlling interests	**52,618**	**561**	**4**	**3,019**	**56,202**
Shareholders' equity of the Iccrea Group	**1,151,045**	**317,171**	**40,302**	**(73,122)**	**1,435,399**

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

CONSOLIDATED BALANCE SHEET

	ASSETS	30/6/2018	31/12/2017
10.	Cash and cash equivalents	82,779	110,641
[20.]	Financial assets held for trading		297,143
[30.]	Financial assets measured at fair value		15,630
[40.]	Financial assets available for sale		3,118,484
[60.]	Due from banks		17,875,759
[70.]	Loans to customers		14,856,879
20.	Financial assets measured at fair value through profit or loss	770,908	
	a) financial assets held for trading	563,048	
	b) financial assets designated as at fair value	-	
	c) other financial assets mandatorily measured at fair value	207,860	
30.	Financial assets measured at fair value through other comprehensive income	333,850	
40.	Financial assets measured at amortized cost	41,629,651	
	a) due from banks	18,053,013	
	b) loans to customers	23,576,638	
50.	Hedging derivatives	6,572	6,716
60.	Value adjustments of financial assets hedged generically (+/-)	(288)	5
70.	Equity investments	112,507	111,676
90.	Property and equipment	703,854	734,014
100.	Intangible assets	52,064	49,409
	of which:		
	- goodwill	21,686	21,686
110.	Tax assets	322,490	318,284
	a) current	105,874	106,174
	b) deferred	216,616	212,111
120.	Non-current assets and disposal groups held for sale	313,276	220,286
130.	Other assets	357,526	412,560
	Total assets	**44,685,189**	**38,127,486**

	LIABILITIES AND SHAREHOLDERS' EQUITY	30/6/2018	31/12/2017
[10.]	Due to banks		19,235,105
[20.]	Due to customers		10,068,860
[30.]	Securities issued		5,688,867
[40.]	Financial liabilities held for trading		356,450
[50.]	Financial liabilities measured at fair value		492
10.	Financial liabilities measured at amortized cost	41,587,212	
	a) due to banks	19,333,544	
	b) due to customers	17,389,041	
	c) securities issued	4,864,627	
20.	Financial liabilities held for trading	517,137	
30.	Financial liabilities designated as at fair value	307	
40.	Hedging derivatives	85,220	56,416
60.	Tax liabilities	3,936	5,331
	a) current	2,525	1,334
	b) deferred	1,411	3,997
70.	Liabilities associated with assets held for sale	437,311	282,047
80.	Other liabilities	450,538	668,291
90.	Employee termination benefits	24,681	25,881
100.	Provisions for risks and charges:	87,247	63,464
	a) commitments and guarantees granted	23,102	
	b) post-employment benefits and similar	-	
	c) other provisions for risks and charges	64,145	
120.	Valuation reserves	40,302	73,569
150.	Reserves	337,151	382,988
160.	Share premium reserve	4,747	4,747
170.	Share capital	1,151,045	1,151,045
180.	Treasury shares (-)	(24,724)	(30,847)
190.	Non-controlling interests (+/-)	56,202	65,423
200.	Net profit (loss) for the period (+/-)	(73,122)	29,357
	Total liabilities and shareholders" equity	**44,685,189**	**38,127,486**

CONSOLIDATED INCOME STATEMENT

		30/6/2018	30/6/2017
10.	Interest and similar income	270,031	250,195
	of which: interest income calculated using effective interest rate method	29,905	
20.	Interest and similar expense	(113,637)	(93,750)
30.	**Net interest income**	**156,394**	**156,445**
40.	Fee and commission income	296,729	263,702
50.	Fee and commission expense	(184,355)	(163,438)
60.	**Net fee and commission income (expense)**	**112,374**	**100,264**
70.	Dividends and similar income	1,271	1,876
80.	Net gain (loss) on trading activities	5,665	9,312
90.	Net gain (loss) on hedging activities	(2,500)	(198)
[100.]	Net gain (loss) on the disposal or repurchase of:		24,788
	a) loans		14
	b) financial assets available for sale		25,832
	d) financial liabilities		(1,058)
100.	Net gain (loss) on the disposal or repurchase of:	(48,189)	
	a) financial assets measured at amortized cost	17,312	
	b) financial assets measured at fair value through other comprehensive income	(63,404)	
	c) financial liabilities	(2,097)	
[110.]	Net gain (loss) on financial assets and liabilities designated as at fair value		1,264
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	959	
	a) financial assets and liabilities designated as at fair value	18	
	b) other financial assets mandatorily measured at fair value	941	
120.	**Gross income**	**225,974**	**293,177**
[130.]	Net losses/recoveries on impairment:		(177,660)
	a) loans		(146,325)
	b) financial assets available for sale		(24,068)
	d) other financial transactions		(7,268)
130.	Net losses/recoveries for credit risk in respect of:	(52,630)	
	a) financial assets measured at amortized cost	(52,469)	
	b) financial assets measured at al fair value through other comprehensive income	(161)	
150.	**Net income (loss) from financial operations**	**173,344**	**221,475**
190.	Administrative expenses:	(266,410)	(236,896)
	a) personnel expenses	(97,666)	*(94,181)*
	b) other administrative expenses	(168,744)	*(142,715)*
200.	Net provisions for risks and charges	(695)	(158)
	a) commitments and guarantees granted	(369)	
	b) net provisions for other risk and charges	(326)	
210.	Net adjustments of property and equipment	(10,152)	(8,859)
220.	Net adjustments of intangible assets	(3,769)	(5,480)
230.	Other operating expenses/income	44,121	48,651
240.	**Operating expenses**	**(236,905)**	**(202,743)**
250.	Profit (loss) from equity investments	3,674	2,769
260.	Net gain (loss) from valuation at fair value of property and equipment and intangible	(9,522)	(9,758)
280.	Profit (loss) from disposal of investments	297	-
290.	**Profit (loss) before tax on continuing operations**	**(69,112)**	**11,742**
300.	Income tax expense from continuing operations	(991)	(158)
330.	**Net profit (loss) for the period**	**(70,103)**	**11,584**
340.	Net profit (loss) for the period – non-controlling interests	3,019	**2,403**
350.	**Net profit (loss) for the period – shareholders' of the Parent Company**	**(73,122)**	**9,180**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		30/6/2018	30/6/2017
10.	**Net profit (loss) for the period**	**(70,103)**	**11,584**
	Other comprehensive income net of taxes not recyclable to profit or loss		
20.	Equity securities designated as at fair value through other comprehensive income	(6,617)	
70.	Defined benefit plans	390	855
	Other comprehensive income net of taxes recyclable to profit or loss		
120.	Cash flow hedges	228	434
[100.]	Financial assets available for sale		(6,433)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(11,824)	
160.	Share of valuation reserves of equity investments accounted for with equity method	(1,655)	(611)
170.	**Total other comprehensive income net of taxes**	**(19,478)**	**(5,755)**
180.	**Comprehensive income (item 10+170)**	**(89,581)**	**5,829**
190.	Consolidated comprehensive income pertaining to non-controlling interests	3,082	2,569
200.	**Consolidated comprehensive income pertaining to shareholders' of the Parent Company**	**(92,663)**	**3,260**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY 2018

				Allocation of net profit of previous dividend		Change in the period											
							Equity transactions										
	As at 31/12/2017	Change in opening balance	As at 1/1/2018	Reserves	Dividends and other allocations	Change in reserves	Issues of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income 30,6,2018	Shareholders' equity as at 30,6,2018	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,202,140		1,202,140										538		1,202,678	**1,151,045**	**51,633**
b) other shares	985		985												985		**985**
Share premium reserve	5,211		5,211										175		5,386	**4,747**	**639**
Reserves:																	
a) earnings	389,712	(82,595)	307,117	35,504	(6,184)								634		337,071	**337,149**	**(78)**
b) other																	
Valuation reserves	73,576	(13,792)	59,780											(19,478)	40,306	**40,302**	**4**
Equity instruments																	
Treasury shares	(30,847)		(30,847)				6,123								(24,724)	**(24,724)**	
Net profit (loss) for the period	35,504		35,504	(35,504)										(70,103)	(70,103)	**(73,122)**	**3,019**
Total shareholders' equity	**1,676,281**	**(96,391)**	**1,579,890**		**(6,184)**		**6,123**						**1,347**	**(89,581)**	**1,491,601**	**1,435,399**	**56,202**
Shareholders' equity pertaining to shareholders' of Parent Company	**1,610,858**	**(89,704)**	**1,521,154**				**6,123**						**778**	**(92,663)**	**1,435,399**		
Shareholders' equity pertaining to non-controlling interests	**65,423**	**(6,687)**	**58,736**		**(6,184)**								**569**	**3,082**	**56,202**		

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY 2017

				Allocation of net profit of previous dividends			Change in the period										
							Equity transactions										
	As at 31/12/2016	Change in opening balance	As at 1/1/2017	Reserves	Dividends and other allocations	Change in reserves	Issues of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income 31/12/2017	Shareholders' equity as at 31/12/2017	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,201,940		1,201,940	-	-	200		-	-	-	-	-	-	-	1,202,140	1,151,045	51,095
b) other shares	985		985	-	-	-		-	-	-	-	-	-	-	985	-	985
Share premium reserve	5,252		5,252	-	-	(41)		-	-	-	-	-	-	-	5,211	4,747	464
Reserves:								-	-	-	-	-	-		-		
a) earnings	426,272		426,272	(21,693)	(14,049)	(818)		-	-	-	-	-	-	-	389,712	382,988	6,724
b) other								-	-	-	-	-	-		-		
Valuation reserves	73,850		73,850	-	-	-		-	-	-	-	-	-	(274)	73,576	73,569	8
Equity instruments								-	-	-	-	-	-	-	-	-	-
Treasury shares	(30,835)		(30,835)	-	-	(12)		-	-	-	-	-	-	-	(30,847)	(30,847)	
Net profit (loss) for the period	(21,693)		(21,693)	21,693	-	-		-	-	-	-	-	-	35,504	35,504	29,357	6,147
Total shareholders' equity	**1,655,771**		**1,655,771**	**-**	**(14,049)**	**(671)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35,230**	**1,676,281**	**1,610,858**	**65,423**
Shareholders' equity pertaining to shareholders' of Parent Company	**1,595,550**		**1,595,550**	**-**	**(11,676)**	**(2,093)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,077**	**1,610,858**		
Shareholders' equity pertaining to non-controlling interests	**60,220**		**60,220**	**-**	**(2,373)**	**1,424**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,152**	**65,423**		

STATEMENT OF CONSOLIDATED CASH FLOWS: INDIRECT METHOD 2018

	30/6/2018
A. OPERATING ACTIVITIES	
1. Operations	**(91,545)**
- net profit (loss) for the period (+/-)	(70,103)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(24,719)
- gains (losses) on hedging activities (-/+)	2,501
- net losses/recoveries on impairment (+/-)	52,630
- net adjustments of property and equipment and intangible assets(+/-)	13,920
- net provisions for risks and charges and other costs/revenues (+/-)	2,140
- taxes, duties and tax credits to be settled (+/-)	2,493
- other adjustments (+/-)	(70,407)
2. Net cash flows from/used in financial assets	**(6,422,485)**
- financial assets held for trading	(244,386)
- financial assets designated as at fair value	1,156
- other assets mandatorily measured at fair value	(21,780)
- financial assets measured at fair value through other comprehensive income	2,470,544
- financial assets measured at amortized cost	(8,769,173)
- other assets	164,152
3. Net cash flows from/used in financial liabilities	**6,485,094**
- financial liabilities measured at amortized cost	6,597,120
- financial liabilities held for trading	160,683
- financial liabilities designated as at fair value	(185)
- other liabilities	(272,524)
Net cash flow from/used in operating activities	**(28,935)**
B. INVESTING ACTIVITIES	
1. Cash flows from	**6,412**
- dividends on equity investments	1,271
- sales of property and equipment	4,998
- sales of intangible assets	143
2. Cash flows used in	**(11,462)**
- purchases of equity investments	(795)
- purchases of property and equipment	(5,238)
- purchases of intangible assets	(5,429)
Net cash flows from/used in investing activities	**(5,050)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	6,123
Net cash flows from/used in financing activities	**6,123**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(27,862)**

Key
(+) generated
(-) used in

Reconciliation

	30/6/2018
Cash and cash equivalents at beginning of period	110,641
Net increase/decrease in cash and cash equivalents	27,862
Cash and cash equivalents at end of period	82,779

STATEMENT OF CONSOLIDATED CASH FLOWS: INDIRECT METHOD 2017

	Amount 31/12/2017
A. OPERATING ACTIVITIES	
1. Operations	**269,758**
- net profit (loss) for the period (+/-)	35,504
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(5,151)
- gains (losses) on hedging activities (-/+)	1,285
- net losses/recoveries on impairment (+/-)	179,509
- net adjustments of property and equipment and intangible assets(+/-)	30,036
- net provisions for risks and charges and other costs/revenues (+/-)	19,226
- taxes, duties and tax credits to be settled (+/-)	6,940
- net adjustments of disposal groups held for sale net of tax effects (+/-)	
- other adjustments (+/-)	2,410
2. Net cash flows from/used in financial assets	**4,179,695**
- financial assets held for trading	94,191
- financial assets at fair value through profit or loss	-
- financial assets available for sale	2,105,489
- due from banks: repayable on demand	(89,179)
- due from banks: other	3,280,420
- loans to customers	(1,328,948)
- other assets	117,723
3. Net cash flows from/used in financial liabilities	**(9,151,288)**
- due to banks: repayable on demand	(1,824,059)
- due to banks: other	8,336,426
- due to customers	(16,758,311)
- securities issued	1,212,851
- financial liabilities held for trading	(53,167)
- financial liabilities at fair value through profit or loss	(20,883)
- other liabilities	(44,146)
Net cash flows from/used in operating activities	**(4,701,835)**
B. INVESTING ACTIVITIES	
1. Cash flows from	**4,767,122**
- sales of equity investments	-
- sales of property and equipment	5,324
- dividends on equity investments	23,189
- sales of financial assets held to maturity	4,738,609
2. Cash flows used in	**(53,895)**
- purchases of equity investments	
- purchases of property and equipment	(33,230)
- purchases of intangible assets	(20,665)
- purchases of financial assets held to maturity	-
Net cash flows from/used in investing activities	**4,713,226**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	(12)
- dividend distribution and other	(14,049)
Net cash flows from/used in financing activities	**(14,061)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(2,669)**

Key
(+) generated
(-) used in

RECONCILIATION

	Amount 31/12/2017
Cash and cash equivalents at beginning of period	113,310
Net increase/decrease in cash and cash equivalents	(2,669)
Cash and cash equivalents at end of period	110,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A – Accounting policies

A.1 –GENERAL INFORMATION

Section 1 – Declaration of conformity with the International Accounting Standards (IAS/IFRS)

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, these interim consolidated financial statements of the Iccrea Group have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These interim consolidated financial statements are compliant with the provisions of IAS 34 and have been prepared in accordance with Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 5th update of December 22, 2017 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the consolidated financial statements were those in force at June 30, 2018, as endorsed by the European Commission (including the interpretations issued by the IFRIC).

With regard to the comparative data for the previous year, taking account of the fact that IFRS 9 provides for the possibility, at the time of first application, of not restating figures for the previous financial years, the Iccrea Group presents comparative data by reporting the items given in the schedules of the 4th update of Circular no. 262 of December 22, 2005. Please see to the financial statements for the year ended December 31, 2017 for details on the accounting standards adopted and in force until that date.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2018:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	**IFRS 15 Revenue from contracts with customers.** The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018.
2067/2016	**IFRS 9 Financial instruments** The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018.
1988/2017	**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** The amendments of IFRS 4 seek to remedy the temporary accounting effects of the mismatch between the effective date of IFRS 9 and the effective date of the new IFRS 17 on insurance contracts, which replaces IFRS 4.	Annual reporting periods beginning on or after January 1, 2018.
182/2018	**Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IAS 28 and IFRS 1** The amendments regarded the elimination of the short-term exemptions envisaged for First-Time Adoption of IFRS1, and the classification and measurement of equity investments measured at fair value through profit or loss in accordance with IAS 28 – Investments in associates and joint ventures.	Annual reporting periods beginning on or after January 1, 2018.
289/2018	**Amendments to IFRS 2 Share-based payment** The amendments are intended to clarify the accounting treatment for certain types of share-based payment schemes.	Annual reporting periods beginning on or after January 1, 2018.
400/2018	**Amendments to IAS 40 Investment property – Transfers of investment property** The amendments clarify when an entity may modify the classification of a property when it was not held as "investment property" and vice-versa.	Annual reporting periods beginning on or after January 1, 2018.
519/2018	**IFRIC 22 – Foreign currency transactions and advance consideration** The interpretation clarifies the accounting treatment for transactions that involve the receipt or payment of advance consideration in a foreign currency.	Annual reporting periods beginning on or after January 1, 2018.

The following table reports new international accounting standards and amendments to existing standards issued by the IASB that have not yet entered force:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	**IFRS 16 Leases**	Annual reporting periods beginning on or after January 1, 2019.

	The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	
498/2018	**Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation** The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.
To be determined	**IFRIC 23 – Accounting for uncertainties in income taxes** The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to IAS28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to IAS 19** The amendments specifies how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020

Compliance with IFRS 9

1 IFRS 9 – REGULATORY FRAMEWORK

IFRS 9 – Financial Instruments, issued by the International Accounting Standards Board (IASB) in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, is the new accounting standard replacing IAS 39 as from January 1, 2018, with an impact on the classification and measurement of financial instruments and the rationale and procedures for calculating impairment losses.

2 THE THREE PILLARS OF IFRS 9

The entry into force of IFRS 9 brought changes, which can be summarized in the following three main areas:

- classification and measurement - the standard introduces new accounting classifications depending on the business models and the financial characteristics of cash flows (so-called SPPI - Solely Payments of Principal and Interests);
- impairment - the standard introduces a new expected credit loss approach (ECL) to replace the incurred loss approach envisaged under IAS 39, providing for the adoption of a single model encompassing all financial assets except those measured at the fair value through profit or loss (FVTPL);
- hedge accounting - the standard introduces changes in the area of micro hedging, bringing hedge accounting into a risk management perspective, while macro hedging does not currently fall within the scope of IFRS 9.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

With regard to “classification and measurement” aspects issues, IFRS 9 establishes three measurement criteria for financial assets:

- amortized cost (hereinafter also "AC");
- fair value through other comprehensive income (hereinafter also “FVTOCI”);
- fair value through profit or loss (hereinafter also “FVTPL”).

For financial assets represented by debt securities, the determination of the measurement criterion is depends both on the business model of the portfolio to which it belongs and to the characteristics of the contractual cash flows of the financial instrument.

Equity instruments are classified in the FVTPL category, with the exception of the irrevocable option to classify equity instruments not held for trading in the FVOCI category. In this case only dividends are recognized in profit or loss, while changes from measurement and gains or losses on disposal are recognized in other comprehensive income.

IMPAIRMENT

With reference to impairment, the standard introduces a single model, based on the concept of expected loss extended to performing on- and off-balance-sheet assets that are not measured at FVTPL. IFRS 9 establishes that at each reporting date the loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The verification of the presence of a significant increase in credit risk is based on a stage allocation process which provides for the classification of financial assets into three stages, applying the calculation of the 12-month expected credit loss to stage 1; and the lifetime expected credit loss on the instrument to stages 2 and 3.

HEDGE ACCOUNTING

With reference to "hedge accounting", the standard revises the rules for the designation of a hedging relationship and for verifying its effectiveness in order to ensure greater alignment between the accounting representation of the hedges and the underlying management rationale, confirming the adoption of a more risk-management oriented approach. It is emphasized that the regulatory changes only concern "general hedge accounting", for which the standard provides for the possibility of applying the rules set by the new standard rather than continuing to apply IAS 39 (the "Opt-in/Opt-out" option). The standard does not address macro-hedging, which continues to be governed by IAS 39.

3 DIFFERENCES WITH IAS 39

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The classifications of financial instruments under IAS 39 have been replaced by the following IFRS 9 categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. In order to determine the classification of debt instruments, two tests must be conducted: the business model test to assess the purpose for which the financial instruments are held and the SPPI test to determine the contractual characteristics of the cash flows associated with the financial instruments.

For the purposes of these assessments, steps have been taken to identify the business model of the financial instruments held and to determine the procedures for conducting the SPPI test on the basis of the characteristics of the contractual cash flows.

IMPAIRMENT

The changes introduced with IFRS 9 include:

- a change from the incurred loss model to an expected loss model;
- the recognition of a significant increase in credit risk, with the consequent measurement of the lifetime expected credit loss (stage 2) in place of a 12-month expected credit loss (stage 1), in the presence of an increase in credit risk since the origination of an asset;
- the introduction of probability-weighted outcomes in the transfer of impaired assets (stage 3);
- the inclusion of forward-looking information, comprising multiple economic scenarios, within the new impairment model.

4 EXEMPTIONS AND OPTIONS APPLIED AT FIRST-TIME ADOPTION

HEDGE ACCOUNTING

As allowed by the standard (IFRS 9 7.2.21), the Iccrea Group exercised the option to continue to apply all of the provisions of IAS 39 governing hedge accounting for all types of hedge.

COMPARATIVE STATEMENTS

In initial application, IFRS 9 does not require the restatement of comparative figures, on a uniform basis, for prior periods. In this regard, at the time of the issue of the 5th amendment of Bank of Italy Circular no. 262/2005 governing the format and rules for the preparation of bank financial statements, the supervisory authorities have specified that banks that do not produce comparative figures must include, in the first financial statements prepared on the basis of the aforementioned update, a reconciliation statement that indicates the method used and provides a reconciliation of the data reported in the most recent approved financial statements and the first financial statements drawn up on the basis of the new provisions.

The form and content of this table may be decided by the competent corporate bodies.

The Iccrea Group has elected to exercise the option available under paragraph 7.2.15 of IFRS 9 to not restate the comparative figures in the first financial statements prepared in accordance with IFRS 9. With regard to such figures, the section "Reconciliation statements" reports the differences between the 4th update of Circular no. 262/2005 and the 5th update.

IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS

With Regulation (EU) 2017/2395 regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, issued on December 12, 2017, the European Parliament and the Council amended Regulation 575/2013 (the CRR), inserting the new Article 473a "Introduction of IFRS 9", which permits banks to attenuate the impact of the introduction of IFRS 9 on their own funds associated with an increase in provisions for expected credit losses by including a portion of the provisions in CET1 capital over a transitional period of 5 years (from March 2018 to December 2022), sterilizing the impact on CET1 by a decreasing percentage over time.

The Iccrea Group has elected to adopt the so-called dynamic approach to the impact resulting from the comparison between the IAS 39 provisions at December 31, 2017 and those calculated under IFRS 9 at January 1, 2018, which provides for the application of decreasing factors to the provisions for exposures classified in stage 1 and stage 2.

Over the first five years of application of IFRS 9, the transitional arrangements gradually reduce the impact on CET1 by applying the following factors:

- 0.95 between January and December 2018;
- 0.85 between January and December 2019;
- 0.7 between January and December 2020;
- 0.5 between January and December 2021;
- 0.25 between January and December 2022.

As indicated in the guidelines issued by the EBA in January 2018, entities that opt for the transitional arrangements shall provide the market with information on a "fully loaded basis" (see disclosure below).

5 THE IFRS 9 IMPLEMENTATION PROJECT ADOPTED BY THE ICCREA BANKING GROUP

The Iccrea Banking Group began work for the adoption of the new IFRS 9 in September 2016, following a preliminary assessment carried out in 2014 aimed at obtaining an initial estimate of the potential impact of its introduction.

Given the importance of the project and the impact of the changes introduced by the new standard, the activities were governed by a Steering Committee composed of members of top management. The project was structured

into three macro-areas mirroring the three areas into which the standard is organized, namely classification and measurement, impairment and hedge accounting. For each project area, an operational manager was appointed.

Since the standard has a considerable impact and impacts many aspects of corporate operations, a large number of the Group's units have been actively involved in the project: the areas most affected by the implementation of the new standard were Administration, Risk Management, Lending, Finance, Organization and Projects, IT, ALM and Consulting and Planning and Management Control. Together with the operational units, internal control functions such as Internal Audit and the Board of Auditors were also part of the project.

The IFRS 9 project was programmed an extended period of time and was divided into macro-phases, such as:

- a stage of assessment and definition of preliminary choices;
- a design and construct stage with the design of the operating models;
- a phase of development, implementation and testing of the procedures and applications adopted, at ensuring the adjustment and consolidation of internal rules within the Group.

With regard to the "classification and measurement" project, in the assessment phase detailed analyses were conducted of the Group's loans and securities portfolios, the functional requirements for the SPPI test were analyzed.

In the design and construct phase, the business models were defined for each Group company, the analysis of the operating scenarios was developed to identify the main organizational, process and technological impacts necessary to start the implementation construction phase. The project results were developed into specific policy documents and processes to govern the transition to the new standard.

During the implementation phase, policies and internal process adjustments were refined and subsequently incorporated in the Group's internal rules, in compliance with the standard.

With regard to the "impairment" project, during the assessment phase the analysis of the systems used to measure the risk parameters for the calculation of the provisions and the mapping of the regulatory requirements was carried out.

In the design and construct phase, on the methodological front the solutions for calculating impairment were developed on the basis of the specific characteristics of each Group company, with particular reference to stage allocation and estimation of risk parameters, while on the technological front, application solutions were developed to enable the implementation of the methodological and functional inputs developed within the project.

With regard to the "hedge accounting" project, the Group conducted an impact analysis of the requirements of IFRS 9, which found no impacts. As discussed previously, the Iccrea Group elected to exercise the option of fully applying the provisions of IAS 39 for all types of hedge, in compliance with IFRS 9.

With reference to information systems, the areas of greatest impact were identified with the implementation of special gap analysis activities, identifying all the necessary changes to be made and identifying the applications and procedures to be adjusted. In particular, with regard to IT systems and impairment procedures, new software applications were introduced to manage the new classification and measurement processes, as were applications to help determine expected loss and incorporate forward-looking factors.

In 2017 the Group underwent the thematic analysis conducted by the Single Supervisory Mechanism (SSM) of credit institutions (the "thematic review"), in order to assess the state of preparation for the application of IFRS 9.

6 OVERVIEW OF IMPACTS

OVERVIEW

(iv) **Shareholders' equity**: the adoption of IFRS 9 reduced shareholders' equity at January 1, 2018 by €96.4 million (net of taxes). More specifically, the overall impact on equity comprised:
   - a decrease of €0.2 million from the new classification and measurement requirements for financial assets;

- a decrease of €99.1 million from the application of the new ECL impairment method;
- the recognition of deferred tax assets (DTA) of €2.9 million.

(v) **CET1**: the new impairment approach and fair value classification and measurement in accordance with IFRS 9 reduced the CET1 ratio (fully-loaded impact) by about 70 basis points to 11.42% at January 1, 2018.

CHANGE IN IMPAIRMENT LOSS IN SHIFT FROM IAS 39/IAS 37 TO IFRS 9

The following table reconciles the balance of IAS 39 IAS 37 provisions with the balance for the same provisions calculated under IFRS 9, indicating changes by credit risk stage. The table shows an increase in provisions of €99.9 million.

Table 1.1

	(€/millions)
31/12/2017 - IAS 39/IAS 37 provisions	**1,298.9**
Reclassification	-0.3
Increase/reduction in ECL on Stage 1 and 2 exposures	18.4
Increase/reduction in ECL on Stage 3 exposures	81.5
01/01/2018 - IFRS 9 ECL	**1,398.6**

IMPACT ON EARNINGS RESERVES

The following table reports the opening balance at January 1, 2018 of the earnings reserves and the impact of the introduction of IFRS 9 on those reserves. The table provides separate reporting of:

- the amount at the closing date of the financial statements prepared in accordance with IAS 39;
- the impact of reclassifications made at FTA;
- the impact of the expected loss estimated in application of IFRS 9 at FTA;
- the tax effect.

Table 1.2

	(€/millions)
Earnings reserves at 31/12/2017 (IAS 39)	389.7
Reclassifications under IFRS 9	14.4
Recognition of ECL under IFRS 9	-99.9
Tax effects	2.9
Earnings reserves at 1/1/2018 (IFRS 9)	**307.1**

With regard to earnings reserves, upon initial application, reclassification amounted to €14.4 million and expected credit losses came to €99.9 million. The impact on the earnings reserves was a negative €82.6 million, net of the tax effects.

7 KEY ELEMENTS IN DETERMINING IMPAIRMENT

As noted earlier, with regard to impairment for instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments) IFRS 9 introduces a model based on the concept of "expected loss" instead of the "incurred loss" concept provided for under IAS 39.

The standard introduces additional complexity and innovative features for determining provisions. Key factors that materially impact the quantification of impairment losses on loans and securities under IFRS 9 include:

- **a 3-stage** approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
    - **Stage 1**: Financial assets originated and/or acquired that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk;
    - **Stage 2**: Financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
    - **Stage 3**: Financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- **Application of "point-in-time"** formulations of the parameters for measuring credit risk for the purpose of calculating impairment, which had previously been measured using "through-the-cycle" metrics;
- **Calculation of lifetime expected credit loss for exposures not classified in Stage 1**, using lifetime parameters;
- **Inclusion of forward-looking conditioning** in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome.

8 THE NEW IMPAIRMENT MODELS – METHODOLOGICAL APPROACH USED BY THE ICCREA GROUP

STAGING AND TRANSFER OF FINANCIAL ASSETS BETWEEN STAGES

In accordance with the accounting rules, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.[5]

The stage allocation process is especially important as this drives the determination of provisions for credit risk in respect of each exposure.

Within the stage allocation framework, the Iccrea Group defines the procedures for transferring an individual exposure from one state to another. More specifically:

- within the framework of the monthly monitoring, an asset/tranche may at any time be transferred from stage 1 to stage 2 or vice-versa if it exceeds (or does not exceed, as the case may be) at least one of the staging criteria established by the individual Group companies for the definition of a significant increase in credit risk;

5 The Iccrea Group uses the regulatory definition of default. See Bank of Italy Circular no. 272 of July 30, 2008. The same definition of default was used under IAS 39.

- regardless of the stage to which it is allocated, an asset/tranche may be classified in stage 3 if the loan/security becomes non-performing.

The staging method of the Iccrea Banking Group was developed, separately for each Group company, on the basis of the following drivers.

With regard to the loan portfolio, the methodology developed by the Group envisages:

A. conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the company, overcollateralized exposures and any specific exposures of the individual company;

B. the use, where a rating system is available, of quantitative criteria based on the analysis and comparison of the PD at origination with the PD at the reporting date. If there is no origination PD and only the reporting date PD is available, the methodology provides for the use of the practical expedient of the low credit risk exemption;

C. the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions with more than 30 days past due and forborne performing exposures;

D. the use of the practical expedient of 12-month PD at origination and at the reporting date as proxies for lifetime PD, supported by analysis demonstrating that that approach represents a reasonable approximation.

With regard to point B above, the main trigger, namely a significant increase in credit risk, is determined by comparing the change in the rating class registered between the date of initial recognition and that at the observation date (delta notch). A determination of a significant deterioration is therefore given by an change in the rating caused by downgrades of the position, measured in terms of notches, between the origination of the exposure and the reporting date. This change is an indicator of an increase or decrease in credit risk during the reference period. In order to determine whether, pursuant to the requirements of IFRS 9, an increase in credit risk can be considered "significant" (and therefore require a transfer between stages), specified thresholds have been established. Changes below those thresholds are not considered significant and, consequently, do no trigger the transfer of an exposures from Stage 1 to Stage 2. Such a transfer is necessary, however, if the increase in terms of notches exceeds those thresholds.

The determination of the thresholds was calibrated with a view to ensuring a proper balance between performance indicators with respect to the ability of the thresholds to:

- identify stage 2 positions before they deteriorate into default;
- identify positions for which a return to stage 1 is synonymous with an effective improvement in credit quality.

Based on the type of counterparty in the position, the loan portfolio is clustered into:

- "Credit institutions" and "Other financial companies";
- "Non-financial companies" and "Producer households".

Qualitative staging criteria applied to all exposures include:

- forborne performing exposure: this criterion classifies exposures with forbearance measures in stage 2;
- past due by more than 30 days: this criterion classifies exposures that are past due by more than 30 days at the assessment date in stage 2.

MAIN DRIVERS OF ECL AND SCENARIOS USED IN IFRS 9 MODELING

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, the Iccrea Group has developed a method using rating models adopted for management purposes in order to obtain point-in-time, forward-looking and lifetime PDs.

For the purpose of estimating the IFRS 9-compliant PD for the loan portfolio, the Iccrea Group uses the ratings determined by the "RiskCalc" of Moody's Analytics (external rating model) for exposures to "Credit institutions" and "Other financial companies". The approach used to obtain lifetime PDs, indicated as "RiskCalc", uses the rating and associated PIT, 1-year and lifetime PDs provided by the external RiskCalc rating model by:

d. using average cumulative PDs for each rating class;
e. extracting the PIT PDs from the average cumulative PDs;
f. reconstructing cumulative lifetime forward-looking PDs.

In addition, for the purposes of calculating the ECL:

- counterparties classified as "Other financial companies" and "Credit institutions" that do not have a rating are assigned the PD associated with the "Ba1/BB+" rating class;
- counterparties classified as "Non-financial companies" are assigned the PD associated with Alvin rating class 6;
- counterparties classified as "Households" are assigned the PD for "Household" counterparties of Banca Sviluppo.

For the securities portfolio, drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "Satellite Model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

For the purposes of estimated the IFRS 9-compliant PD for the securities portfolio, the Iccrea Banking Group uses the 12-month PDs drawn from the Standard & Poor's Sovereign matrices for government securities and corporate bonds:

- the S&P Sovereign matrices provide 12-month PDs only. For this reason they are conditioned by combining the transitions to default provided, including forward-looking information by applying the multipliers from the Satellite Model in the manner indicated in the approach based on observed default rates referred to in point C of this section;
- the S&P Corporate matrices provide 12-month and cumulative PDs. For this reason conditioning uses the approach referred to in point B of this section, thereby:

  c. extracting the PIT PDs from the average cumulative PDs;
  d. constructing the cumulative lifetime forward-looking PDs.

Loss Given Default (LGD)

The Iccrea Group estimates LGD at the counterparty level, associating:

- the regulatory LGD of 45% with exposures to "Credit institutions" and "Other financial companies"»;
- the LGD computed by observing the ratio between specific provisions and the total non-performing exposure and applying the danger-rate matrix for exposures to "Households" and " Non-financial companies".

The latter is estimated in the following steps:

- calculation of coverage ratio for each cluster by loan status (impaired past due, unlikely to pay, non-performing), stating, on the basis of the non-performing portfolio at the reporting date for "Households" and "Non-financial companies", the amount of specific writedowns as a percentage of the total gross exposure;
- calculation, for the entire portfolio, of the probability of transition from "performing" to another status on the basis of data at t-1 and t;
- calculation of the LGD, to be applied to performing positions, as the weighted coverage ratio for the associated probability of transition:

$$LGD_{Performing} = \%\,coverage_{\,Impaired\,past\,due} * Prob(Performing \rightarrow SD) + \%coverage_{Unlikely\,to\,pay} * Prob(Performing \rightarrow UP) + \%\text{coverage}_{Non-performing} * Prob(Performing \rightarrow Non-performing)$$

Exposure At Default (EAD)

The Iccrea Group and Iccrea Banca differentiate the approach used to estimated EAD by loan portfolio on the basis of product type and stage of the exposure, as follows.

For "Amortizing" loans:

- the EAD for stage 1 is equal to the residual debt at the reporting date;
- the EAD for stage 2 is calculated by taking the residual debt drawn from management data in repayment plans for each exposure, then applying a transformation coefficient differentiated by residual life. The estimation involves the following steps:
  e. clustering of exposures by residual life (years);
  f. application of the following formula to individual exposures:
  $$EAD_{Lifetime} = \sum_{t=0}^{T}\left(EADt\frac{PD\ Marginal_t}{PD\ Cumulative_T}\right) * \frac{1}{(1+EIR)^t}$$
  where EIR is equal to the TIR of the exposure;
  g. calculate, for each exposure, the following transformation coefficient: $\frac{\text{EAD}_{\text{Lifetime}}}{\text{EAD}_0}$;
  h. calculated the average transformation coefficient differentiated by years of residual life.

For "Revolving" loans and "Guarantee" exposures, the EAD for stage 1 and stage 2 is equal to the residual debt t the reporting date.

For "Margin" positions, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date with application of the regulatory CCF.

For the securities portfolio, the EAD associated with each securities issue is determined, where available, the gross value of the exposure (tel quel value) at the reporting date.

If this is not available, the carrying amount of the issue at the same date is used as proxy for the EAD.

For exposures in securities with amortization plans, the EAD for stage 1 is calculated as the residual debt at the reporting date, while the EAD for stage 2 is calculated on the basis of the residual debt drawn from the annual maturities over the residual life of the exposure, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure (the approach for amortizing exposures in stage 2).

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Iccrea Banking Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

The Iccrea Group and Iccrea Banca condition risk parameters for future macroeconomic scenarios by estimating, on an annual basis, models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of certain reference variables (default rates, amount of non-performing positions, etc.).

In order to obtain a PD that reflects future macroeconomic conditions, we estimate "satellite models" differentiated by counterparty type that "explain" the relationship linking default rates to a set of "explanatory" macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, the Iccrea Group estimates a regression model that "explains" the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of "explanatory" macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, the Iccrea Group associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

The following set of variables is used in the models:

- GDP;
- yield on 10-year BTPs;
- inflation rate;
- unemployment rate;
- house price index.

9 DETERMINATION OF RESIDUAL LIFE OF FINANCIAL ASSETS

The residual life of financial assets, given in years, is determined as the difference between the reporting date and the maturity date of the financial asset. The maximum residual life is capped at 30 years. If the residual life is less than one year or the maturity date is unknown, the residual life is assumed to be one year.

10 CREDIT RISK: COMPARISON OF LOSS ALLOWANCES UNDER IFRS 9 AND IAS 39

The following table reconciles the balance at December 31, 2017 of impairment provisions for financial assets (IAS 39) and provisions for payment obligations and guarantees (IAS 37) with the balance of loss provisions at January 1, 2018, as determined in accordance with IFRS 9.

Table 1.3

	Impairment provisions under IAS 39/ IAS 37 provisions	Reclassification impact	Recognition of ECL under IFRS 9	Loss provisions under IFRS 9
Loans and receivables (IAS 39) / Financial assets measured at amortized cost (IFRS 9)	**1,288.8**	**-0.3**	**86.9**	**1,375.4**
due from banks	0.0	-	3.4	3.4
loans to customers	1,287.1	-0.3	81.4	1,368.2
debt securities	1.7	-	2.0	3.8
Loans and Receivables (IAS 39) / Financial assets measured at fair value through profit or loss (IFRS 9)	-	-	-	-
due from banks	-	-	-	-
loans to customers	-	-	-	-
debt securities	-	-	-	-
Financial assets available for sale (IAS 39) / Financial assets measured at fair value through other comprehensive income (IFRS 9)	-	-	**0.8**	**0.8**
debt securities	-	-	0.8	0.8
Financial assets held to maturity (IAS 39) / Financial assets measured at amortized cost (IFRS 9)	-	-	-	-
debt securities	-	-	-	-
Off-balance-sheet commitments and guarantees	**10.1**	-	**12.2**	**22.4**
Commitments to disburse funds	0.0	-	0.2	0.2
Financial guarantees granted	10.1	-	12.1	22.1
Total	**1,298.9**	**-0.3**	**99.9**	**1,398.6**

11 CREDIT QUALITY

The following table compares IAS 39/IAS 37 impairment provisions at December 31, 2017 and the provisions following application of IFRS 9 broken down by risk stage.

Table 1.4

€/millions	IAS 39/IAS 37		IFRS 9 ECL				Impact of FTA IFRS 9
	Collective impairment provisions	Specific impairment provisions	Stage 1 adjustments	Stage 2 adjustments	Stage 3 adjustments	Total adjustments 1/1/2018	
Financial assets measured at amortized cost	94.0	1,194.8	49.7	49.5	1,276.2	1,375.4	86.6
due from banks	-	0.0	2.4	1.0	0.0	3.4	3.4
loans to customers	94.0	1,194.8	47.3	48.6	1,276.1	1,372.0	83.2
Financial assets measured at fair value through other comprehensive income	-	-	0.4	0.4	-	0.8	0.8
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Total on-balance-sheet exposures	**94.0**	**1,194.8**	**50.1**	**50.0**	**1,276.2**	**1,376.2**	**87.4**
Off-balance-sheet commitments and guarantees	9.5	0.6	7.6	14.2	0.6	22.4	12.2
Total on- and off-balance-sheet exposures	**103.5**	**1,195.4**	**57.7**	**64.2**	**1,276.8**	**1,398.6**	**99.6**

12 RECONCILIATION STATEMENTS AND EXPLANATORY NOTES

The following tables contain a reconciliation of the consolidated balance sheet as reported in the 2017 financial statements and the consolidated balance sheet modified in accordance with the classification criteria introduced with IFRS 9. The account balances determined in accordance with IAS 39 are mapped to the new IFRS 9 category, taking sole account of the new classification criteria without application of new measurement criteria, leaving unaltered total assets and liabilities under IFRS 9 from the total assets and liabilities measures in accordance with IAS 39.

Tables 1.5 and 1.6

IFRS 9 schedule - ASSETS (€/millions / IAS 39 schedule - ASSETS (€/millions)	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss			30. Financial assets measured at fair value through other comprehensive income	40. Financial assets measured at amortized cost		50. Hedging derivatives	60. Value adjustments of financial assets hedged generically (+/-)	70. Equity investments	90. Property and equipment	100. Intangible assets	110. Tax assets		120. Non-current assets and disposal groups held for sale	130. Other assets	31/12/2017 IAS 39
		a) financial assets held for trading	b) financial assets designated as at fair value	c) other financial assets mandatorily measured at fair value		a) due from banks	b) loans to customers						a) current	b) deferred			
10. Cash and cash equivalents	110.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	110.6
20. Financial assets held for trading	-	297.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	297.1
30. Financial assets at fair value through profit or loss	-	-	-	15.6	-	-	-	-	-	-	-	-	-	-	-	-	15.6
40. Financial assets available for sale	-	-	-	84.8	2,804.5	-	229.2	-	-	-	-	-	-	-	-	-	3,118.5
50. Financial assets held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60. Due from banks	-	-	-	-	-	17,875.8	-	-	-	-	-	-	-	-	-	-	17,875.8
70. Loans to customers	-	-	-	87.5	-	-	14,769.4	-	-	-	-	-	-	-	-	-	14,856.9
80. Hedging derivatives	-	-	-	-	-	-	-	6.7	-	-	-	-	-	-	-	-	6.7
90. Value adjustments of financial assets hedged generically (+/-)	-	-	-	-	-	-	-	-	0.0	-	-	-	-	-	-	-	0.0
100. Equity investments	-	-	-	-	-	-	-	-	-	111.7	-	-	-	-	-	-	111.7
120. Property and equipment	-	-	-	-	-	-	-	-	-	-	734.0	-	-	-	-	-	734.0
130. Intangible assets	-	-	-	-	-	-	-	-	-	-	-	49.4	-	-	-	-	49.4
140. Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	106.2	212.1	-	-	-
a) current	-	-	-	-	-	-	-	-	-	-	-	-	106.2	-	-	-	106.2
b) deferred	-	-	-	-	-	-	-	-	-	-	-	-	-	212.1	-	-	212.1
150. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	220.3	-	220.3
160. Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	412.6	412.6
31/12/2017 IAS 39 reclassified	**110.6**	**297.1**	**-**	**187.9**	**2,804.5**	**17,875.8**	**14,998.6**	**6.7**	**0.0**	**111.7**	**734.0**	**49.4**	**106.2**	**212.1**	**220.3**	**412.6**	**38,127.5**

IFRS 9 schedule - LIABILITIES (€/millions / IAS 39 schedule - LIABILITIES (€/millions)	10. Financial liabilities measured at amortized cost			20. Financial liabilities held for trading	30. Financial liabilities designated as at fair value	40. Hedging derivatives	50. Value adjustments of financial liabilities hedged generically	60. Tax liabilities		70. Liabilities associated with assets held for sale	80. Other liabilities	90. Employee termination benefits	100. Provisions for risks and charges			120. Valuation reserves	130. Redeemable shares	140. Capital instruments	150. Reserves	160. Share premium account	170. Share capital	180. Treasury shares	190. Non-controlling interests (+/-)	200. Net profit (loss) for the period (+/-)	31/12/2017 IAS 39
	a) due to banks	b) due to customers	c) securities issued					a) current	b) deferred				a) commitments and guarantees issued	b) post-employment benefits	c) other										
10. Due to banks	19,235.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,235.1
20. Due to customers	-	10,068.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,068.9
30. Securities issued	-	-	5,688.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,688.9
40. Financial liabilities held for trading	-	-	-	356.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	356.5
50. Financial liabilities at fair value through profit or loss	-	-	-	-	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5
60. Hedging derivatives	-	-	-	-	-	56.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56.4
70. Value adjustments of financial liabilities hedged generically	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80. Tax liabilities	-	-	-	-	-	-	-	1.3	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.3
a) current	-	-	-	-	-	-	-	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.3
b) deferred	-	-	-	-	-	-	-	-	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.0
90. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	-	282.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	282.0
100. Other liabilities	-	-	-	-	-	-	-	-	-	-	658.2	-	10.1	-	-	-	-	-	-	-	-	-	-	-	668.3
110. Employee termination benefits	-	-	-	-	-	-	-	-	-	-	-	25.9	-	-	-	-	-	-	-	-	-	-	-	-	25.9
120. Provisions for risks and charges:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	63.5	-	-	-	-	-	-	-	-	-	63.5
a) post-employment benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	63.5	-	-	-	-	-	-	-	-	-	63.5
140. Valuation reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73.6	-	-	-	-	-	-	-	-	73.6
170. Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	383.0	-	-	-	-	-	383.0
180. Share premium account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.7	-	-	-	-	4.7
190. Share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,151.0	-	-	-	1,151.0
200. Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- 30.8	-	-	- 30.8
210. Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65.4	-	65.4
220. Net profit (loss) for the period **(+/-)**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29.4	29.4
31/12/2017 IAS 39 reclassified	**19,235.1**	**10,068.9**	**5,688.9**	**356.5**	**0.5**	**56.4**	**-**	**1.3**	**4.0**	**282.0**	**658.2**	**25.9**	**10.1**	**-**	**63.5**	**73.6**	**-**	**-**	**383.0**	**4.7**	**1,151.0**	**-30.8**	**65.4**	**29.4**	**38,127.5**

13 IFRS 9 IMPACT ON OPENING BALANCE SHEET AND SHAREHOLDERS' EQUITY

The following tables report the impact of first-time application of IFRS 9 on each of the balance-sheet items provided for in the 5th update of Circular no. 262/2005. The tables provide separate indication of the impacts of applying the new classification and measurement method, the effects of the new impairment method and the tax effects of applying IFRS 9.

Table 1.7

	Circular 262/2005 5th update - ASSETS (€/millions)	31/12/2017 IAS 39 reclassified	Classification and measurement	Impairment	FTA tax effects	1/1/2018 IFRS 9
10.	**Cash and cash equivalents**	110.6	-	-	-	110.6
20.	**Financial assets measured at fair value through profit or loss**	485.0	-1.0	-	-	484.1
	a) financial assets held for trading	297.1	-1.1	-	-	296.0
	b) financial assets designated as at fair value	-	-	-	-	-
	c) other financial assets mandatorily measured at fair value	187.9	0.1	-	-	188.0
30.	**Financial assets measured at fair value through other comprehensive income**	2,804.5	-	-	-	2,804.5
40.	**Financial assets measured at amortized cost**	32,874.3	-1.3	-86.8	-	32,786.2
	a) due from banks	17,875.8	-0.4	-3.4	-	17,872.0
	b) loans to customers	14,998.6	-0.9	-83.5	-	14,914.2
50.	**Hedging derivatives**	6.7	-	-	-	6.7
60.	**Value adjustments of financial assets hedged generically (+/-)**	0.0	-	-	-	0.0
70.	**Equity investments**	111.7	-	-	-	111.7
90.	**Plant and equipment**	734.0	-	-	-	734.0
100.	**Intangible assets**	49.4	-	-	-	49.4
110.	**Tax assets**	318.3	-	-	2.9	321.2
	a) current	106.2	-	-	-	106.2
	b) deferred	212.1	-	-	2.9	215.0
120.	**Non-current assets and disposal groups held for sale**	220.3	-	-	-	220.3
130.	**Other assets**	412.6	-	-	-	412.6
	Total assets	**38,127.5**	**-2.2**	**-86.8**	**2.9**	**38,041.2**

Table 1.8

	Circular 262/2005 5th update - ASSETS (€/millions)	31/12/2017 IAS 39 reclassified	Measurement	Impairment	FTA tax effects	1/1/2018 IFRS 9
10.	**Financial liabilities measured at amortized cost**	34,992.8	-	-	-	34,992.8
	a) due to banks	19,235.1	-	-	-	19,235.1
	b) due to customers	10,068.9	-	-	-	10,068.9
	c) securities issued	5,688.9	-	-	-	5,688.9
20.	**Financial liabilities held for trading**	356.5	-	-	-	356.5
30.	**Financial liabilities designated as at fair value**	0.5	-	-	-	0.5
40.	**Hedging derivatives**	56.4	-	-	-	56.4
50.	**Value adjustments of financial liabilities hedged generically**	-	-	-	-	-
60.	**Tax liabilities**	5.3	-0.4	-	-1.3	3.6
	a) current	1.3	-	-	-	1.3
	b) deferred	4.0	-0.4	-	-1.3	2.3
70.	**Liabilities associated with assets held for sale**	282.0	-	-	-	282.0
80.	**Other liabilities**	658.2	-0.4	-	-	657.8
90.	**Employee termination benefits**	25.9	-	-	-	25.9
100.	**Provisions for risks and charges**	73.6	-	12.2	-	85.8
	a) commitments and guarantees granted	10.1	-	12.2	-	22.4
	b) post-employment benefits and similar	-	-	-	-	-
	c) other provisions for risks and charges	63.5	-	-	-	63.5
120.	**Valuation reserves**	73.6	-14.6	0.8	-	59.8
130.	**Redeemable shares**	-	-	-	-	-
140.	**Equity instruments**	-	-	-	-	-
150.	**Reserves**	383.0	12.1	-98.9	4.2	300.4
160.	**Share premium account**	4.7	-	-	-	4.7
170.	**Share capital**	1,151.0	-	-	-	1,151.0
180.	**Treasury shares**	-30.8	-	-	-	-30.8
190.	**Non-controlling interests (+/-)**	65.4	-	-	-	65.4
180.	**Net profit (loss) for the period (+/-)**	29.4	-	-	-	29.4
	Total liabilities and shareholders' equity	**38,127.5**	**-3.3**	**-85.8**	**2.9**	**38,041.2**

14 SHAREHOLDERS' EQUITY: RECONCILIATION BETWEEN FIGURES AT DECEMBER 31, 2017 (IAS 39) AND JANUARY 1, 2018

The following table reports the impact on shareholders' equity of the introduction of IFRS 9, which totaled a negative €96.4 million.

Shareholders' equity at January 1, 2018 (under IFRS 9) amounted to €1,580 million, a decrease on shareholders' equity of €1,676 million at December 31, 2017 (under IAS 39).

The following reports the impact for each balance-sheet item of measurement and impairment under the new IFRS 9.

Table 1.9

(€/millions)	IFRS 9 transition effect
Shareholders' equity IAS 39 (31/12/2017)	**1,676.3**
Item 20. Financial assets measured at fair value through profit or loss	**13.2**
Measurement effect	13.2
Impairment effect	-
Item 30. Financial assets measured at fair value through other comprehensive income	**-12.4**
Measurement effect	-12.4
Impairment effect (Earnings reserve)	-0.8
Impairment effect (Valuation reserve)	0.8
Item 40. Financial assets measured at amortized cost	**-87.7**
Measurement effect – formerly FVTOCI under IAS 39 (formerly AFS)	-0.9
Measurement effect – change in accounting treatment	-
Impairment effect	-86.9
- Stages 1 and 2	-5.4
- Stage 3	-81.5
Off-balance-sheet commitments and guarantees	**-12.2**
Measurement effect	-
Impairment effect	-12.2
- Stages 1 and 2	-12.2
- Stage 3	-
Total impact on shareholders" equity	**-99.3**
Tax effects	**2.9**
Total IFRS transition effects 9 1/1/2018	**-96.4**
Shareholders' equity IFRS 9 1/1/2018	**1,579.9**

IFRS 9 AND DIFFERENCES WITH IAS 39

The following comparative table sets out the main regulatory differences between IAS 39 and IFRS 9:

IMPAIRMENT

Key terms	IAS 39	IFRS 9
Scope of application	Assets measured at amortized cost are written down when there is objective evidence of impairment. The losses are measured by comparing the gross carrying amount with the discounted future cash flows . Losses that could be incurred as a result of future events are not recognized. For AFS financial assets, impairment is recognized when there is an evident objective difficulty in recovering future cash flows. Impairment is measured as the decrease in fair value below cost at initial recognition.	The same measurement and recognition requirements apply to financial assets recognized at amortized cost and those measured at FVOCI. Impairment is not recognized for equity instruments measured at FVOCI. Impairment is recognized for all financial assets with 12-month ECL and lifetime ECL. ECL is measured considering all reasonable and supportable information, including information about past events, current conditions and forecasts of future economic conditions.
Impaired/Stage 3	The criterion used to determine whether there is objective evidence of impairment for loans assessed individually is the same under IAS 39 and IFRS 9. The determination of the realizable value of a security is based on the most recent updated market value when the impairment assessment is carried out, which is not adjustment for expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for uniform groups of performing loans that are not assessed individually, using historical loss rates for that category of loan. Non-performing loans are assessed individually and collectively for certain categories of non-performing and unlikely to pay positions. In any event, loans are classified as impaired when they are More than 90 days past due or have been renegotiated for credit risk reasons.	The stage 3 population is consistent with individually assessed impaired loans under IAS 39. For loans to be assessed on a collective basis, the calculation of discounted individual cash flows continues to be performed collectively as under IAS 39. However, the net realizable value reflects future expected changes in the market, and the losses relating to cash flows in different scenarios are subject to probabilistic adjustments to determine the ECL, rather than using the best estimate of cash flows. For the population of individually assessed positions, allocation to Stage 3 is determined by considering relevant objective evidence. Mainly, consideration is given to contractual payments of principal, or interest past due by more than 90 days, or forbearance measures granted to the borrower for economic reasons or reasons relating to the financial condition of the debtor, or the loan. The loss allowance is determined using the same calculation adopted for stage 2, but with the probability of default set to 1. The result may therefore not be the same as that determined under IAS 39, and the statistical methods and the population identified as stage 3 will not match necessarily to those described by IAS 39.
Stage 2	The concept is not developed under IAS 39.	Reasonable and supportable information shall be taken into consideration when determining whether there is a need to recognize lifetime expected credit losses . Credit risk analysis is multifactorial and holistic. Decisions about whether a certain element is relevant and its weight with respect to other factors depends on the type of product, on the characteristics of the financial instruments, on the borrower, and geographical area. The presence of payments past due by more than 30 days is not an absolute indicator of the need to recognize lifetime expected losses, but it is presumed that it is the time period within which lifetime expected credit losses should also be disclosed when using information indicative of expected developments (including macroeconomic factors at the portfolio level). Financial assets for which credit risk has not increased significantly are written down using a 12-month PD.
Stage 1	The concept is not developed under IAS 39. However, incurred but not yet identified impairment is assessed for loans for which no evidence of impairment has been identified in the collective assessment of loss determined after taking into consideration factors including the estimated period between when the impairment occurred and when the loss is identified. This is assessed empirically on a periodic basis and may change over time. Similarly, for uniform groups of loans measured in accordance with IAS 39 on a collective basis, the intrinsic loss is determined by using risk factors including the period of time between the identification of the loss and derecognition, which is regularly compared with actual outcomes.	For financial instruments in which the default structure is not concentrated at a specific point in the expected life of the financial instrument, changes in the risk of default over the next 12 months may be a reasonable approximation of changes in the risk of default over the life of the instrument. In these cases, changes in default risk over the next 12 months are used to determine if credit risk has increased significantly after initial recognition, unless circumstances indicate that a lifetime assessment is required. Financial assets for which credit risk has not increased significantly are written down using a 12-month PD.
Probability of Default (PD)	Point in Time (PIT): the PD of debtors is sensitive to short-term macroeconomic developments. Accordingly, it increases during a recession and declines during an expansion. Though the Cycle (TTC): the PD of debtors is given by an average default rate for a specific borrower, ignoring short-term macroeconomic developments.	Point in Time (PIT): the PD of debtors is sensitive to short-term macroeconomic developments. Accordingly, it increases during a recession and declines during an expansion.
Forward-looking and multiple scenarios	The concept is not developed under IAS 39.	IFRS 9 requires consideration of forward-looking information in determining if credit risk has increased significantly and in determining expected credit loss, considering the possible probability-weighted scenarios .
Loss Given Default (LGD)	LGD is determined as a parameter for assessing collective impairment and for the assessment of expected loss on specific positions. The estimation of LGD is determined on the basis of statistical information.	LGD is an assessment of the amount that will be recovered in the event of default, taking into account future conditions. In determining LGD, only direct costs are included.
Exposure at Default (EAD)	Carrying amount	"Expected" developments in the EAD over the residual life of the instrument. For the purposes of quantifying the EAD associated with each issue of financial instruments, the gross value of the exposure at the reporting date is generally used.

CLASSIFICATION & MEASUREMENT

Key terms	IAS 39	IFRS 9
Classification	Financial assets are measured at amortized cost (L & R and HTM), FVOCI (AFS) or fair value through profit or loss (derivatives and assets held for trading) depending on the nature of the instruments and the purpose for which they are held. Embedded derivatives are separated unless the entire contract is measured at fair value through profit or loss . The fair value option is applied to embedded derivatives that are not closely related that have not been separated, for financial instruments measured at fair value or when measurement at fair value through profit or loss reduces or eliminates an accounting mismatch. AFS is a residual category.	Debt instruments are measured at amortized cost or FVOCI based on their contractual terms and the business models under which they are held (Hold to Collect, Hold to Collect and Sell, other). The concept of separated derivatives does not apply to financial assets. Therefore, the fair value option applies where it would reduce or eliminate an accounting mismatch. Measurement at fair value through profit or loss is a residual category. Equity instruments are measured at fair value through profit or loss until the option is exercised for measurement at FVOCI. With reference to the contractual terms, the standard introduces the SPPI test to assess whether the instrument's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.
Presentation	The AFS reserve for debt instruments and equity instruments accumulated in other comprehensive income is recycled through profit or loss.	The AFS reserve for debt instruments accumulated in other comprehensive income is reclassified through profit or loss. Gains and losses on equity instruments measured through FVOCI accumulated in other comprehensive income are not recycled through profit or loss.

Compliance with IFRS 15

IFRS 15 applies to all contracts with customers with the exception of lease contracts, insurance contracts and financial instruments that fall within the scope of other specific international accounting standards.

The standard prescribes the rules for the recognition of revenue, introducing an approach that provides for their recognition when control over the promised goods or services is transferred to the customer and the recognition of revenue in an amount that reflects the consideration to which the company expects to be entitled in exchange for the goods or services.

IFRS 15 provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract with the customer;
- identification of the performance obligations;
- determination of the transaction price;
- allocation of the transaction price to performance obligations;
- recognition of revenue on the basis of satisfaction of the performance obligation ("at a point in time" or "over time").

The standard also introduces new rules for recognizing costs incurred in obtaining and performing a contract, allowing them to be recognized as an asset if the entity expects to recover them with the execution of the contract.

The Iccrea Group has conducted a preliminary assessment of contracts with major customers using gap analysis with respect to the revenue recognition rules provided for in the old IAS 18 in order to identify the areas impacted by IFRS 15.

The analysis found that in general the accounting treatment of the main forms of revenue from contracts with customers is already in line with the provisions of the new standard and, accordingly, the transition to the IFRS 15 did not have a material impact on the accounts. The main effect was primarily an increase in the disclosure provided on the nature, amount, timing and level of uncertainty of revenue as well as on the cash flows from contracts with customers.

The more detailed information provided for in 5th update of Circular no. 262 of the Bank of Italy will be provided in financial statements as at December 31, 2018.

Section 2: General preparation principles

The interim consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and these explanatory notes to the financial statements, along with the report on operations and the performance and consolidated financial position.

Unless otherwise specified the figures in the financial statements and the explanatory notes to the financial statements are expressed in thousands of euros.

The financial statements were prepared by applying the general principles set out in IAS 1 and the specific accounting policies endorsed by the European Commission and described in Part A.2 of these explanatory notes, as well as the general Framework for the Preparation and Presentation of Financial Statements issued by the IASB.

No exceptions have been made in applying the IASs/IFRSs.

RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

In conformity with the IFRS, management is required to formulate assessments, estimates and assumptions that impact the application of accounting standards and the values of the assets, liabilities, costs and revenue recognized in the financial statements. The estimates and the associated assumptions are based on prior experience and other factors considered reasonable in the circumstances. They have been adopted in order to estimate the carrying amount of assets and liabilities whose value cannot easily be determined on the basis of other information.

Estimation processes were used to support the value of some of the largest items recognized in the consolidated financial statements at June 30, 2018, as provided for by the accounting standards and applicable legislation referred to earlier.

These processes are largely based on the estimation of the future recoverability of the carrying amounts in accordance with the rules established by applicable regulations. They were performed on the basis of consideration of the Bank as a going concern, i.e. excluding the possibility of the forced liquidation of the items being measured.

The estimation process supported the carrying amounts recognized at June 30, 2018. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

The parameters and the other information used in verifying the carrying amounts were therefore substantially impacted by those factors, which could undergo rapid changes that cannot currently been foreseen, making it impossible to rule out consequent effects of the future values of those items.

The estimates and assumptions are reviewed regularly. Any changes made as a result of such reviews are recognized in the period in which the review was conducted where such review involved only that period. Where the review affects both current and future periods, any changes are recognized in the period in which the review was conducted and in the related future periods.

Content of the financial statements

BALANCE SHEET AND INCOME STATEMENT

The balance sheet and the income statement contain items, sub-items and further information (the "of which" for items and sub-items). items without values for the reference period and the previous period are not included. In the income statement, revenue are shown without indicating their sign, while cost figures are shown within parentheses.

STATEMENT OF COMPREHENSIVE INCOME

The items concerning other comprehensive income after taxes in the statement of comprehensive income report changes in the value of assets recognized in the valuation reserves. Items without balances for the year and for the previous year are not reported. Negative amounts are presented between parentheses.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders' equity. No equity instruments other than ordinary shares have been issued.

STATEMENT OF CASH FLOWS

The statements of cash flows for the present and the previous period were prepared using the indirect method, under which cash flows from operating activities are represented by the profit (loss) for the period, adjusted for the impact of non-monetary transactions. Cash flows are broken down into cash flows from/used in operating activities, investing activities and financing activities. Cash flows generated during the period are shown without a sign, while those used are shown within parentheses.

Contents of the notes to the financial statements

The explanatory notes to the financial statements include the information required by international accounting standards and Bank of Italy Circular no. 262/2005 – 5th update of December 22, 2017.

Section 3 – Scope and methods of consolidation

The consolidated financial statements include the financial statements of Iccrea SpA and the financial statements of its direct and indirect subsidiary companies. The scope of consolidation is defined on the basis of the provisions of IFRS 10, 11 and 12 and IAS 31.

Subsidiaries

The scope of consolidation is established in accordance with the provisions contained in IFRS 10 "Consolidated financial statements". Under the standard, the requirement of control is the basis for the consolidation for all types of entities and is met when an investor simultaneously has:

- the power to direct the relevant activities of the entity;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power over the investee to affect the amount of the investor's returns (link between power and returns).

IFRS 10 establishes that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and must also be exposed to the variability of the returns deriving from that power.

The carrying amount of equity interests in companies either consolidated on a line-by-line basis, held by the Parent Company or other companies within the Group, is eliminated – as the subsidiaries' assets and liabilities are absorbed into those of the Group – offsetting the corresponding percentage of the subsidiaries' equity pertaining to the Group.

Asset and liability items, off-balance sheet transactions, expenses and income, as well as profits and losses which occur between companies falling within the scope of consolidation are eliminated, in accordance with the consolidation method adopted. Costs and revenue of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenue from a subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 280 "Gain/(loss) from the disposal of investments".

The share pertaining to non-controlling interests is presented on the balance sheet under item 190 "Non-controlling interests", separately from the liabilities and shareholders' equity pertaining to the shareholders of the Parent Company. The portion pertaining to non-controlling interests is also presented separately in the income statement, under item 340 "Profit/(loss) pertaining to non-controlling interests".

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred in order to obtain control of that equity interest, inclusive of ancillary costs, is measured as at the acquisition date.

Controlling equity investments held for sale are consolidated on a line-by-line basis and reported separately in the financial statements as a disposal group valued as of the reporting date at the lower of carrying amount or fair value less costs to sell.

Associated companies

Associates are companies over which the Company exercises a significant influence and that is neither a subsidiary nor a joint venture. Significant influence is assumed to exist when the parent company:

- directly or indirectly holds at least 20% of the voting rights of another company;
- is able, including through shareholders' agreements, to exercise significant influence through:
  - representation on the company's management body;
  - participation in the process of setting policies, including participation in the decision-making process concerning dividends;
  - the existence of significant transactions;
  - the exchange of management personnel.

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. Shares of the profits and losses after acquisition of the associated company are recognized in profit or loss under item 250 "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment.

If the portion of the losses pertaining to the Group equals or exceeds the carrying amount of the investment in the associate, further losses are not recognized unless. there is contractual obligation to cover such losses or in the presence of payments made on behalf of the associate.

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group's interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved.

Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. At June 30, 2018 the Group had no interests in joint arrangements.

The table below reports the companies that fall within the scope of consolidation on a line-by-line basis.

1. Equity investments in subsidiaries

		Registered office	Type of relationship (1)	Equity investment		% share of votes (2)
				Investor	% holding	
A.	**Consolidated on a line-byline basis**					
1.	Bcc Risparmio & Previdenza SGrpA	Milan	1	Iccrea Banca SpA	75	75
2.	Iccrea BancaImpresa SpA	Rome	1	Iccrea Banca SpA	99.33	99.33
3.	Bcc Factoring SpA	Rome	1	Iccrea BancaImpresa SpA	100	100
4.	Bcc Gestione Crediti SpA	Rome	1	Iccrea Banca SpA	55	55
5.	Bcc Solutions SpA	Rome	1	Iccrea Banca SpA	100	100
6.	Bcc Beni Immobili Srl	Rome	1	Iccrea Banca SpA	100	100
7.	Bcc Lease SpA	Rome	1	Iccrea BancaImpresa SpA	100	100
8.	Bcc Credito Consumo SpA	Rome	1	Iccrea Banca SpA	96	96
9.	Banca Sviluppo SpA	Rome	1	Iccrea Banca SpA	68.07	68.07
10.	Bcc Retail Scarl	Milan	1	Iccrea Banca SpA	39.30	39.30
				Iccrea BancaImpresa SpA	5.21	5.21
				Bcc Risparmio&Previdenza	12.81	12.81
				Bcc Credito Consumo SpA	3	3
				Banca Sviluppo SpA	3.23	3.23
11.	Bcc Sistemi Informatici SpA	Milan	1	Iccrea Banca SpA	98.53	98.53
				Iccrea BancaImpresa SpA	0.003	0.003
				Banca Sviluppo SpA	0.003	0.003
12.	FDR Gestione Crediti SpA	Rome	1	Bcc Gestione Crediti SpA	100	100
13.	Fondo Securis Real Estate	Rome	4	Iccrea Banca SpA	56.55	56.55
				Iccrea BancaImpresa SpA	21.47	21.47
14.	Fondo Securis Real Estate II	Rome	4	Iccrea Banca SpA	84.78	84.78
15.	Fondo Securis Real Estate III	Rome	4	Iccrea BancaImpresa SpA	19.92	19.92
				Iccrea Banca SpA	67.25	67.25
16.	Securfondo	Rome	4	Iccrea Banca SpA	54.39	54.39
		Rome	4	Banca Sviluppo SpA	0.14	0.14
17.	Ventis Srl	Rome	1	Iccrea Banca SpA	95	95
18.	Iccrea Sme Cart 2016 Srl	Treviso	4	Iccrea BancaImpresa SpA	0	0
19.	Lucrezia Securitisation Srl	Rome	4	Iccrea Banca SpA	0	0
20.	13 metriquadri Srl	Bellaria		Ventis Srl	95	95

Key:

1) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.

2) Votes available in ordinary shareholders' meeting, distinguishing between effective and potential votes. Sme Cart 2016 Sr. is consolidated owing to the substantive control of the cash flows associated with securitization transactions carried out by Iccrea BancaImpresa SpA. The "BCC Romagnolo" securitization of the Lucrezia Securitisation Srl vehicle has been consolidated in view of the substantive control of the cash flows associated with the transaction.

2. Assessment and significant assumptions in determining the scope of consolidation

Subsidiaries are entities in which the Group holds direct or indirect control. Control over an entity is demonstrated by the Group's ability to exercise the power to influence the variable returns to which the Group is exposed by virtue of such relationship.

In order to verify whether control exists, the Group considers the following factors:

- the purpose and the structure of the investee, in order to identify the entity's objectives, the activities that give rise to its returns and such activities are governed;
- power, in order to determine whether the Group has contractual rights to direct the relevant activities;
- the exposure with respect to the investee, in order to determine whether the Group has an involvement with the investee whose returns vary depending on the performance of the investee.

Where the relevant activities are directed through voting rights, the following factors provide evidence of control:

- it holds, directly or indirectly through its subsidiaries, more than half of the voting rights in an entity, unless it can be clearly demonstrated that such ownership does not constitute control;
- it holds less than half, or a smaller share, of the voting rights exercisable in the shareholders' meeting and has the practical ability to direct the relevant activities unilaterally:
  - it controls more than half of the voting rights by virtue of an agreement with other investors;
  - it has the power to determine the financial and operating policies of the entity under a provision of the bylaws or a contract;
  - it has the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and that board or body manages the entity;
  - the power to cast the majority of the voting rights at meetings of the board of directors or equivalent governing body, and that board or body manages the entity.

Subsidiaries may also include any "structured entities" in which the voting rights are not deemed significant in assessing control and include special purpose entities and investment funds.

Structured entities are treated as subsidiaries where:

- the Group has the power through contractual rights to direct the relevant activities;
- the Group is exposed to the variable returns arising from such activities.

The structured entities that are consolidated because the Group has the power to govern the relevant activities of the entity as a result of the financial instruments it has subscribed include:

- real estate investment funds;
- special purpose securitization vehicles.

Structured entities – Real estate investment funds

In the real estate investment funds, a control relationship has been deemed to exist in the following cases:

- the involvement of the investor/sponsor in structuring the operation;
- the participation of the Group companies on the committees provided for in the fund's rules (participants' advisory committee), which have the power to direct/govern the relevant activities of the fund and/or control the activities of the fund manager;
- the presence of contractual relationships that tie the fund to the Group for the subscription/placement/sale of its units;

- the purpose of the operation.

The consolidated real estate investment funds are:

- Securfondo;
- Fondo Securis Real Estate;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III.

In view of their business model (real estate) and the composition of their assets, essentially composed of properties measured at market value, the funds have been consolidated, recognizing their assets under property and equipment in the consolidated financial statements, recognizing any increases/decreases under "*Net gain/loss from valuation at fair value of property and equipment*" in the income statement.

Structured entities – special purpose securitization vehicles

In the SPVs, a control relationship has been deemed to exist in the following cases:

- the involvement of the Group companies in structuring of the operation (originator/investor/servicer/facility provider);
- the subscription of substantially all of the ABSs issued by the SPV by Group companies;
- the purpose of the operation.

The consolidated special purpose securitization vehicles are Iccrea SME Cart 2016 Srl, originated by Iccrea BancaImpresa, and Lucrezia Securitisation Srl, the latter being consolidated as from 2017, for which Iccrea Banca has undertaken to subscribe all of the notes issued by the vehicle in respect of the BCC Romagnolo securitization originated by mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano).

3. Investments in subsidiaries with significant non-controlling interests

3.1 Non-controlling interests, voting rights of non-controlling interests and dividends distributed to non-controlling interests

Subsidiaries	Non-controlling interests	Dividends distributed to non-controlling interests
Bcc Gestione Crediti SpA	45%	-
Bcc Risparmio & Previdenza SGrpA	25%	4,505
Bcc Retail Scarl	40.83%	-

3.2 Investments in subsidiaries with significant non-controlling interests: accounting information

	Total assets	Cash and cash equivalents	Financial assets	Property and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Gross income	Operating expenses	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax on disposal groups	Profit (loss) for the period (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1)+(2)
1. Bcc Gestione Crediti SpA	14,001	-	5,016	80	340	5,921	(8)	6,684	(3,726)	3,046	2,147	-	2,147	12	2,159
2. Bcc Risparmio & Previdenza SGrpA	73,664	1	30,650	5,627	29,377	31,802	-	19,156	(10,423)	8,734	5,996	-	5,996	-	5,996
3. Bcc Retail Scarl	3,699	1	2,569	81	-	1,037	3	3	324	326	208	-	208	-	208

4. Significant restrictions

There are no significant restrictions as envisaged under IFRS 12, paragraph 13, applicable to the banks and companies that form the area of consolidation of the Group.

5. Other information

FINANCIAL STATEMENTS USED FOR CONSOLIDATION PURPOSES

The financial statements used for line-by-line consolidation are those at June 30, 2018, as approved by the competent bodies of the consolidated companies, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

Section 4 – Events subsequent to the reporting date

As required under IAS 10, we report that no event occurred subsequent to the reporting date that would have materially altered the figures reported in the interim financial statements.

For information on events that occurred subsequent to the end of the period, please see the report on operations.

Section 5 – Other information

CONSOLIDATED TAX MECHANISM OPTION

Iccrea Banca SpA and all the Group companies adopt the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company. Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

OTHER ISSUES

The interim consolidated financial statements have undergone a limited review by EY SpA

On August 3, 2018 the Board of Directors approved the consolidated financial statements of the Iccrea Group at June 30, 2018.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the consolidated financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI test").

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring

ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
    - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
    - on the basis of the staging indicator for the loan portfolio.
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms.

Frequency and materiality thresholds have been specified:

- frequency is defined as the number of trading days considered in the period considered;
- materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Iccrea Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a "benchmark test", an exercise that involves comparing the interest on the actual instrument, calculated at the

contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is "not genuine", it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Iccrea Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 – Financial assets measured at fair value through profit or loss

CLASSIFICATION

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an "other" business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the "host contract"). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

RECOGNITION

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trade date. Financial assets are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

MEASUREMENT

Financial assets measured at fair value through profit or loss are measured at fair value following initial recognition. The effects of the application of this treatment are recognized through profit or loss.

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

DERECOGNITION

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

RECOGNITION OF INCOME COMPONENTS

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized through profit or loss when the right to receive payment is established.

2 – Financial assets measured at fair value through other comprehensive income

CLASSIFICATION

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income.

Specifically, the item includes:

- loans and debt securities held with a "hold to collect and sell" business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group's commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

Reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

RECOGNITION

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

Financial assets are initially recognized at fair value, which is generally the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss. The initial recognition value includes direct transaction costs or revenue determinable at the recognition date, even if settled at a later time.

MEASUREMENT

Following initial recognition, financial assets measured at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the value corresponding to the amortized cost recognized in the income statement. Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized or they incur an impairment loss. Upon disposal or the recognition of an impairment loss, the cumulative gain or loss recognized in the equity reserve is reversed to profit or loss.

Equity instruments classified in this category are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for performing instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized. The amortized cost of assets measured at fair value through other comprehensive income is recognized through profit or loss. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

In addition to recognizing impairment losses, the cumulative gains and losses recognized in other comprehensive income are recognized through the income statement under item 100 ("Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income") at the time the asset is disposed of. Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 – Financial assets measured at amortized cost

CLASSIFICATION

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

RECOGNITION

Financial assets are initially recognized at the settlement date for debt securities and at the disbursement date for loans. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenue directly attributable to the transaction and determinable from the inception of the transaction, even if settled at a later time. The initially recognized amount does not include costs to be reimbursed by the debtor or that can be characterized as normal administrative overhead costs.

The initial recognition amount of loans disbursed at non-market conditions is equal to the fair value of the loans, determined using valuation techniques. The difference between the fair value and the amount disbursed or the subscription price is recognized through profit or loss.

Securities repurchase transactions are recognized as funding or lending transactions. Transactions involving a spot sale and a forward repurchase are recognized as payables in the amount received spot, while those involving a spot purchase and a forward sale are recognized as receivables in the amount paid spot.

Transactions with banks through correspondent accounts are recognized at the time of settlement and, therefore, these accounts are adjusted for all non-liquid items regarding bills and documents received or sent registered as 'subject to collection' or after actual collection.

Where, in the event of unusual circumstances, the assets are recognized in this category following reclassification form financial assets available for sale or from financial assets held for trading, the fair value of the assets at the date of reclassification shall be deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets are measured at amortized cost, using the effective interest rate method. The amortized cost equals the amount at which a financial asset is measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction (directly or through the use of a provision) due to impairment or non-recoverability.

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

Amortized cost is not used for very-short-term loans, loans without a specified maturity or revocable loans, for which the impact of this method can be considered not material. These positions are measured at cost.

The measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

1. stage 1 and 2 including performing financial assets;
2. stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer "significant" in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses.

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9. The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as "impaired") and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations.

Measurement of the financial assets takes account of the best estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

Transferred financial assets are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial". In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
    - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
    - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

RECOGNITION OF INCOME COMPONENTS

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, as well as through the process of amortization of the difference between the carrying amount and the amount repayable at maturity.

4 – Hedging

The Iccrea Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

CLASSIFICATION

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items "hedging derivatives" among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

RECOGNITION

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules.

Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset with the change in the fair value of the hedging instrument: this offsetting is effected by recognizing the changes in value through profit or loss, both for the hedged item (as regards changes produced by the underlying risk factor) and for the hedging instrument; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge's expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category.

DERECOGNITION

If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

5 – Equity investments

CLASSIFICATION

The item includes equity investments in subsidiaries, associates and joint ventures.

Associated companies, i.e. entities under significant influence, comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in associated companies held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

RECOGNITION

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

MEASUREMENT

After initial recognition, the carrying amount of the interest is increased or decreased to recognized the percentage pertaining to the Group of the gains or losses that the investee realized after the acquisition date.

The percentage of the investee's results for the period in question pertaining to the Group is recognized in profit or loss. Dividends received from an investee company reduce the carrying amount of the equity investment. Adjustments to the carrying amount may also be necessary after changes occur in the Group's percentage interest in the associated company, deriving from changes in the investee's shareholders' equity that were not recognized in profit or loss. These changes include, by way of example, changes due to the valuation at market value of the investee's financial assets available for sale or to the redetermination of the value of plant, property and equipment. The portion of such changes pertaining to the Group is recognized outside the Group's profit or loss under item 120 "Valuation Reserves".

The valuation process uses the financial statements of the investees prepared, where material, on the basis of the IAS/IFRS used by the Group.

Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

If the reasons for the impairment loss cease to obtain following an event that occurred after recognition of the impairment, the reversal is recognized in profit or loss.

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

DERECOGNITION

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

RECOGNITION OF INCOME COMPONENTS

Dividends received from equity investments measured at cost are recognized in profit or loss when the right to receive the payment is established. Impairment losses on subsidiaries, associates and joint arrangements measured at cost are recognized in profit or loss. If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss.

6 – Property and equipment

CLASSIFICATION

Property and equipment includes land, buildings used in operations, investment property, technical plant, furniture and equipment. This item includes assets that are used in providing goods and services, rented to third parties, or used for administrative purposes for a period of more than one year. The item also includes assets held under finance leases, although legal ownership remains with the lessor.

RECOGNITION

Property and equipment is recognized at cost, which in includes all incidental expenses directly attributable to purchasing and placing the asset in service.

Expenses subsequently incurred increase the carrying amount of the asset or are recognized as separate assets if it is likely that the future economic benefits will exceed initial estimates and the costs can be reliability calculated.

All other subsequent expenses (e.g. ordinary maintenance costs) are recognized in the income statement in the year incurred.

This item also includes assets held under finance leases for which substantially all the risks and rewards of ownership have been assumed. These assets are initially recognized at a value equal to the lesser of the fair value and the present value of the minimum payments provided for under finance lease. This amount is subsequently subject to depreciation.

MEASUREMENT

Property and equipment, used in operations is measured at cost less depreciation and impairment. Depreciation is determined systematically over the remaining useful life of the asset.

The depreciable value is represented by the cost of the assets since the residual value at the end of the depreciation process is considered negligible. Buildings are depreciated at a rate of 3% per year, deemed to appropriately represent the deterioration of the assets over time from their use, taking into account extraordinary maintenance costs, which increase the value of the asset. Land, whether purchased individually or incorporated into the value of a building, is not depreciated.

Investment property under IAS 40, refers to real estate (owned or held through a finance lease) for the purposes of receiving rental income and/or for the appreciation of the invested capital. The fair value model is used for such assets.

DERECOGNITION

Property and equipment is derecognized when disposed of or when permanently withdrawn from use and no future benefits are expected from its disposal.

RECOGNITION OF INCOME COMPONENTS

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

7 – Intangible assets

CLASSIFICATION

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

The costs of improving leased property with no independent function and use are conventionally classified among other assets, as provided for by Bank of Italy Circular no. 262. The related amortization, which is carried out over a period that does not exceed the length of the lease, is reported among other operating expenses.

RECOGNITION

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

MEASUREMENT

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the reporting date.

DERECOGNITION

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

RECOGNITION OF INCOME COMPONENTS

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset and, for goodwill, at each reporting date, the asset is tested for impairment and any negative difference between its

carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

8 – Non-current assets and disposal groups held for sale

CLASSIFICATION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

RECOGNITION

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of discontinued operations”.

DERECOGNITION

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 – Current and deferred taxation

CLASSIFICATION

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years.

Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of Iccrea Banca SpA and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, "taxable temporary differences" are those that in future periods will give rise to taxable amounts and "deductible temporary differences" are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

Where the deferred tax assets and liabilities regard items that impact profit or loss, that effect is recognized under income taxes.

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments available for sale or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be "taxed in the event of any use" is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed "only in the event of distribution" is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

RECOGNITION OF INCOME COMPONENTS

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

RECOGNITION AND CLASSIFICATION

Provisions for risks and charges are recognized in the income statement and reported under liabilities on the balance sheet in relation to a present legal or constructive obligation resulting from a past event for which performance of the obligation is likely to be onerous and the loss associated with the liability can be reliably estimated.

The amount recognized is the best estimate of the amount required to discharge the obligation or to transfer it to third parties as of the close of the period.

When the financial impact of the passage of time is significant and the dates of payment of the obligation can be estimated reliably, the provision is discounted at market rates as of the reporting date.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

The amounts recognized are reviewed at every reporting date and are adjusted to reflect the best estimate of the expense required to fulfil the obligations existing at the close of the period. The impact of the passage of time and that of changes in interest rates are reported in the income statement under net provisions for the period.

DERECOGNITION

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

11 – Financial liabilities measured at amortized cost

CLASSIFICATION

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

RECOGNITION

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

DERECOGNITION

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

12 – Financial liabilities held for trading

CLASSIFICATION

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of derivatives embedded in compound contracts. Liabilities deriving from short positions in by securities trading activities are recognized under "Financial liabilities held for trading".

RECOGNITION

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss..

MEASUREMENT

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the section on measuring financial assets held for trading for information on determining the fair value.

DERECOGNITION

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

13 – Financial liabilities designated as at fair value

CLASSIFICATION

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch or if they contain an embedded derivative.

RECOGNITION

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

After initial recognition, financial liabilities reported under this item are measured at fair value in accordance with the following rules:

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity);
- all other changes in fair value shall be recognized through profit or loss.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see the section on the measurement of financial liabilities held for trading.

DERECOGNITION

Financial liabilities at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party.

RECOGNITION OF INCOME COMPONENTS

The result of measurement is recognized through profit or loss.

14 – Foreign currency transactions

RECOGNITION

Transactions in a foreign currency are initially recognized in the functional currency by translating the amount in the foreign currency into the functional currency at the exchange rate prevailing on the date of the transaction.

MEASUREMENT

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

RECOGNITION OF INCOME COMPONENTS

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 "Net gain (loss) on trading activities". If the asset is classified as available for sale, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised.

- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue are recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

The recognition of certain types of revenue has become a significant issue since the adoption, with effect from January 2018, of IFRS 15 - Revenue from contracts with customers, which was endorsed with the publication of Regulation no. 1905/2016. Subsequently, in 2017, Regulation 1987/2017 was approved, introducing changes designed to clarify certain aspects and providing a number of operational simplifications of use during the transition phase.

The entry into force of the standard entailed the repeal of IAS 18 - Revenue and IAS 11 – Construction contracts, as well as the related interpretations.

The main new features are:

- the creation of a single framework for the recognition of revenue covering both the sale of goods and the provision of services;
- the adoption of a step approach;
- the introduction of a mechanism that enables the allocation of the total price of the transaction to the individual performance obligations (sale of goods and/or provision of services) included in the sale contract.

- The standard introduces the following steps in the recognition of revenue:
- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;

- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. IFRS 15 specifies that the assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under "Other assets" in accordance with Bank of Italy instructions n. 262 – 5° update of December 22, 2017. The assets are amortized over a period no greater than the term of the lease and the amortization charges are reported under other operating expenses.

Determination of impairment

FINANCIAL ASSETS

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;
- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
  - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
  - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, “satellite models” are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. Based on the estimates, the multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

DEBT SECURITIES

With regard to the debt securities, the methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

EQUITY SECURITIES

Equity securities do not undergo impairment testing.

OTHER NON-FINANCIAL ASSETS

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined on the basis of prices on financial markets in the case of instruments quoted on active markets and through the use of internal valuation techniques for other financial instruments. A financial instrument is considered to be quoted on an active market if the quoted prices, which reflect normal market operations, are readily and ordinarily available from an exchange, broker, intermediary, sector firm, pricing service, authorized entity, regulatory agency or multilateral trading facility, and if those prices reflect the actual and regular operation of the market over a normal reference period.

Accordingly, the fair value for an asset held or a liability to be issued is the current price offered by the purchaser (bid), while for an asset to be purchased or a liability held it is the current price requested by the seller (ask). In the absence of a quoted price on an active market or a regularly functioning market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently low, the fair value of financial instruments is mainly determined using valuation techniques that seek to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques consider:

- prices in recent market transactions in similar instruments, if available, corrected appropriately to reflect changes in market conditions and technical differences between the instrument being valued and the similar instrument (the 'comparable approach');
- valuation models commonly used by market participants that have been demonstrated to provide reliable estimates over time of prices obtained in current market conditions.

Financial instruments are assigned to one of three levels that reflect the characteristics and significance of the inputs used in determining fair value:

- **Level 1**: unadjusted prices on an active market are available for the assets and liabilities involved;
- **Level 2**: prices on an active market for similar assets and liabilities or prices calculated using valuation techniques in which all significant inputs are based on parameters that are directly or indirectly observable on the market;
- **Level 3**: prices determined on the basis of valuation models that use significant unobservable inputs in the calculation.

The choice between these methods is not optional, and the valuation techniques adopted should maximize the use of observable factors, relying on subjective parameters as little as possible.

In ranked order, in the absence of an active market (effective market quotes – Level 1), the fair value of assets and liabilities shall be calculated using valuation techniques that employ parameters that are directly or indirectly observable other than quoted prices for the financial instrument (comparable approach – Level 2) or, in the absence of such parameters or in the presence of inputs drawn only partially from observable market parameters, fair value shall be calculated on the basis of valuation techniques commonly used by the financial community, which therefore allow more discretionary assessments (mark-to-model approach – Level 3).

The following are considered to be quoted on an active market (Level 1):

- listed shares;

- government securities quoted on a regulated market;
- bonds with significant contributed prices;
- listed funds or funds whose net asset value is calculated on a daily basis;
- derivatives contracts for which prices on an active market are available (listed derivatives).

The price used for financial instruments quoted on active markets is the current price offered for financial assets (bid) and the current price requested (ask) for financial liabilities, on the main trading market, at the close of the reporting period. Nevertheless, in the case of financial instruments for which the bid-ask spread is not significant or for financial assets and liabilities whose characteristics give rise to offsetting positions in market risk, a mid-market price is used (once again as at the last day of the reporting period) rather than the bid or ask price.

In the absence of prices observable on active markets, the fair value of financial instruments is determined through two approaches:

- the comparable approach (Level 2), which assumes the presence of quoted market prices on inactive markets for identical or similar instruments in terms of risk-return, maturity and other trading conditions. In particular, when the current market prices of other highly comparable instruments (on the basis of the country or sector to which they belong, the rating, the maturity or the seniority of the securities) are available, the Level 2 value of the instrument corresponds to the quoted price of the similar instrument, adjusted if necessary for factors observable on the market.
- the model valuation approach (Level 2 or Level 3) is based on the use of valuation models that maximize the use of observable market variables.

The most common valuation techniques used are:

- discounted cash flow models
- option pricing models.

For derivatives, in view of their variety and complexity, a systematic reference framework has been developed that represents the common elements (calculation algorithms, valuation models, market data used, underlying assumptions of the model) on which the valuation of each category of derivative is based.

Derivatives on interest rates, exchange rates, equities, inflation and commodities not traded on regulated markets are over-the-counter instruments. In other words, they are negotiated bilaterally with market counterparties and their fair value is determined with specific pricing models that use inputs (such as yield curves, exchange rates and volatility) observed on the market.

For structured credit products and ABSs, if reliable prices are not available, valuation techniques using market-derived parameters are employed.

To determine the fair value of certain types of financial instrument for which observable market inputs are not available and for which market activity is limited or absent, it is necessary to use valuation techniques that employ inputs that are not directly observable in the market and therefore require estimates and assumptions on the part of the person measuring the instrument (Level 3). More specifically, the mark-to-model approach is applied to all financial instruments not quoted on an active market when:

- even if observable inputs are available, it is necessary to make significant adjustments to such inputs that are based on unobservable inputs;
- the estimation is based on assumptions specific to the Group concerning future cash flows and the adjustment for the discount rate risk.

In any event, the goal is to obtain a value for the instrument that is consistent with the assumptions that market participants would use in forming a price. Such assumptions also regard the risk associated with a given valuation

technique and/or the inputs employed. IFRS 13 requires the adoption of reasonable assumptions without having to undertake exhaustive searches to find such information.

The valuation technique used for a financial instrument is adopted consistently over time and is modified only in response to material changes in market conditions or the condition of the issuer of the financial instrument.

For the purpose of reporting for financial instruments at fair value, the above hierarchy adopted in determining fair value is used consistently for the allocation of the portfolio to the fair value input levels (see section A.3 of Part A).

Additional information on the modeling used by the Group in determining fair value is provided in section E of these notes.

The entire system of rules and responsibilities for the valuation of the Bank's financial instruments is set out in the Fair Value Policy, which specifies the main components of the entire methodological framework in terms of:

- definition of the roles and responsibilities of the company bodies and functions involved;
- classification of the financial instruments;
- the rules for classification of financial instruments within the fair value hierarchy provided for under IFRS 7 and IFRS 13;
- the valuation techniques and methods used for financial instruments;
- processes for the management and control of the valuation of financial instruments;
- the hedging policy for financial instruments;
- reporting flows.

NON-FINANCIAL ASSETS

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under "value adjustments". Writedowns for impairment of guarantees are reported under "Provisions for risk and charges".

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

Business combinations

A business combination is the merger of separate entities or business operations into a single entity that is required to prepare financial statements.

A business combination may involve a parent company (purchaser) acquiring an interest in a subsidiary (purchased company). A business combination may also involve the acquisition of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions of assets).

Based on the provisions of IFRS 3, business combinations must be accounted for using the acquisition method, which involves the following steps:

- identification of the acquirer;
- determination of the cost of the business combination;
- allocation, as at the acquisition date, of the cost of the business combination to the assets acquired and the liabilities and contingent liabilities assumed.

In particular, the cost of a business combination is determined as the sum of the fair value as at the date of the transfer of the transferred assets, the liabilities incurred or assumed, and the equity instruments issued, in exchange for control of the acquiree, plus any other cost directly attributable to the business combination.

The acquisition date is the date in which control over the acquiree is effectively obtained. When the acquisition takes place in a single transaction, the date of the transaction generally coincides with the acquisition date.

When the business combination occurs through more than one transaction:

- the cost of the combination is the total cost of all the individual transactions;
- the exchange date is the date of each transaction (that is, the date on which each investment is recognized in the acquirer's accounts), while the acquisition date is that on which control over the acquiree is obtained.

The cost of a business combination is allocated by recognizing the identifiable assets, liabilities and contingent liabilities at fair value at the acquisition date.

The identifiable assets, liabilities identifiable contingent liabilities are recognized separately as at the acquisition date only if, at that date, they satisfy the following criteria:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer and it is possible to measure its fair value reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and it is possible to measure their fair value reliably;
- in the case of an intangible asset or contingent liability, it must be possible to measure the fair value reliably.

Any positive difference between the cost of the business combination and the acquirer's equity interest at the net fair value of the identifiable assets, liabilities and contingent liabilities shall be recognized as goodwill.

After initial recognition, the goodwill acquired in a business combination is measured at cost and undergoes impairment testing at least once a year.

In the case of a negative difference, a new measurement is carried out. If confirmed, this negative difference shall immediately be recognized as revenue in profit or loss.

Treasury shares

Any treasury shares held are deducted from shareholders' equity. Similarly, the original cost of the shares and any gains or losses from their subsequent sale are recognized as changes in shareholders' equity.

Finance leases

Lease agreements qualify as finance leases if they transfer substantially all the risks and rewards of ownership of the leased asset. Ownership of the assets is not necessarily transferred to the lessee at the conclusion of the leasing contract.

The essential substantive and financial characteristic of these contracts is that the lessee acquires the economic benefits associated with the use of the leased asset for the majority of its economic life, in exchange for paying a sum that approximates the fair value of the asset and its associated finance costs. Hence, it is recognized in the financial statements of the lessor as follows:

among assets, the value of the receivable disbursed, net of the principal of the leasing instalments accrued and paid by the lessee;

in profit or loss, interest income.

Factoring

Receivables acquired as part of factoring activities are recognized and carried in the accounts in the amount of sums disbursed to the assignor as an advance for the payment for the portfolio transferred with recourse. Receivables acquired without recourse are recognized as such after it is ascertained there are no contractual clauses that would vitiate the substantive transfer of all risks and rewards.

Repurchase agreements

Securities received as part of a transaction which contractually requires subsequent resale and securities transferred as part of a transaction which contractually requires repurchase are not recognized and/or derecognized. Accordingly, in the case of securities acquired with a resale agreement, the amount paid is recognized as an amount due from customers or banks or as a financial asset held for trading. In the case of securities transferred with a repurchase agreement, the liability is recognized as an amount due to banks or customers, or as a financial liability held for trading. Revenue from these investments, consisting of the accrued interest on the securities and the spread between the spot price and forward price of the securities, are recognized as interest in profit or loss on an accruals basis.

The two types of operation are offset if and only if they are carried out with the same counterparty and if such netting is provided for in the contract.

Determination of amortized cost

The amortized cost of a financial asset or liability is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or the next repricing date. In calculating the present value, the effective interest rate is applied to the future cash receipts or payments over the entire life of the financial asset or liability or to a shorter period in the presence of certain conditions (for example, a change in market rates).

Subsequent to initial recognition, amortized cost makes it possible to allocate income and expense on the instrument over its entire expected life through the amortization process. The determination of amortized cost differs depending on whether the financial assets/liabilities being measured are fixed or floating rate instruments and, in the latter case, on whether the variability of the rate is known or not a priori. For fixed-rate instruments or instruments whose rate is fixed over specified time periods, future cash flows are quantified on the basis of the known interest rate (single or variable) over the life of the instrument. For floating-rate financial assets/liabilities for which the variability of the interest rate is not known a priori (e.g. because it is linked to an index)), cash flows are calculated on the basis of the last known rate. At each repricing date, the amortization schedule and the effective interest rate are recalculated for the entire useful life of the instrument, i.e. until the maturity date.

The adjustment is recognized as an expense or income through profit or loss.

Measurement at amortized cost is used for loans, financial asset held to maturity and available for sale and for debt and securities issued.

Financial assets and liabilities traded on market terms and conditions are initially measured at fair value, which is normally equal to the amount disbursed or paid including, for instruments measured at amortized cost, directly attributable transaction costs, fees and commissions.

Transaction costs include internal or external marginal costs and revenue attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. Such commissions, which must be directly attributable to the individual financial asset or liability, modify the original effective yield. Accordingly, the effective interest rate associated with the transaction differs from the contractual interest rate. Transaction costs do not include costs/revenue regarding more than one transaction and components related to events which may occur during the life of the financial instrument but which are not certain at the time of the initial agreement, such as, for example: commissions for retrocession, for non-use or for early repayment. Furthermore, the calculation of amortized cost does not include costs that would be incurred independently of the transaction (e.g. administrative costs, office supplies or communication expenses), costs that, while directly attributable to the transaction, are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as fees and commissions for services collected in respect of structured finance activities which would in any case have been received independently of the subsequent financing of the transaction (e.g. facility and arrangement fees) and, finally, intercompany costs and revenue.

With specific reference to loans and receivables, costs considered directly attributable to the financial instrument include fees paid to distribution networks, fees paid for advisory/assistance services for the origination and/or participation in syndicated loans and up-front commissions in respect of loans granted at rates exceeding market rates. Revenue considered in the calculation of amortized cost include up-front commissions in respect of loans granted at rates below market rates, revenue from participation in syndicated loans and brokerage fees received.

As regards securities not classified among assets held for trading, fees for contracts with brokers operating on Italian equity markets, and fees paid to intermediaries operating on foreign equity and bond markets defined on the basis of commission tables, are considered transaction costs. Stamp duties are not included in the amortized cost calculation because they are insignificant.

For securities issued, the calculation of amortized cost considers placement commissions on bond issues paid to third parties, amounts paid to exchanges and fees paid to audit firms for the activities performed for each single issue. The calculation of amortized cost does not consider commissions paid to rating agencies, legal and advisory/audit expenses for the annual update of prospectuses, the costs for the use of indices and commissions which originate during the life of the bond issue.

Amortized cost is also applied in measuring impairment losses on the financial instruments listed above as well as for the recognition of instruments issued or purchased at an amount other than fair value. Instead of using the

amount received or paid, the latter are measured at fair value by discounting expected future cash flows at a rate equal to the effective interest rate of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in profit or loss of financial expense or income; subsequent to initial recognition, these are measured at amortized cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured assets and liabilities which are not recognized at fair value through profit or loss for which the embedded derivative has been separated from the financial instrument are measured at amortized cost.

Amortized cost is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recognized through profit or loss. However, the financial instrument is again measured at amortized cost when the hedge terminates. From that moment, fair value changes recognized previously are amortized, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged portion until the natural expiry of the hedge. Furthermore, as already mentioned in the section on measurement criteria for loans and debts and securities issued, measurement at amortized cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a specified maturity or which are revocable.

Criteria for preparing segment reporting

For the purposes of the operating segment reporting required by IFRS 8, and taking into account the organizational/management and geographical structure of the Parent Company and its subsidiaries, the main segment breakdown is by business segment, while no division by geographical area has been made as all Group activities are carried out in Italy.

The Group’s operating segments are as follows:

- *Institutional:* activities performed with institutional counterparts (mutual banks, other banks, and public institutions), in the context of payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- *Corporate:* activities mainly aimed at loans to small and mid-sized companies that are customers of the mutual banks;
- *Retail*: mainly asset management activities on an individual, collective, and insurance basis and consumer credit products aimed at retail customers;
- *Corporate Center:* for internal Group activities of an administrative and support nature, as well as all intercompany transactions.

Allocation of income statement and balance sheet components to the individual segments is carried out on the basis of the segment to which they belong in accordance with the customer segmentation management model adopted.

The aim of the revenue and cost allocation rules is to attribute all the profit or loss components that pertain to a business structure to than structure, either directly or using appropriate pass-through criteria, reducing the unattributed portion charged to the Corporate Center to a minimum.

Specific contractual agreements between Group entities regulate the application of transfer prices for other income components relating to transactions that call for the division of gains/losses between service units/product producers and customers/public entities. Direct costs, and for the relevant portion, the operating costs of central bodies other than those of the holding company units, have been attributed to each segment. Hence, for services carried out by central bodies for operational business units, the pass through was carried out on the basis of the services effectively rendered, leaving costs relating to management and control activities allocated to the Corporate Center. The business units' profits are reported net of taxes.

Operating segments are presented gross of transactions between different segments.

A. 3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

The table has not been completed because there were no such reclassifications as of the reporting date.

A.3.2 Reclassified financial assets: change in business model, fair value and impact on comprehensive income

The table has not been completed because there were no such reclassifications as of the reporting date.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

The table has not been completed because there were no such reclassifications as of the reporting date.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under the new IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

For financial instruments measured at fair value, the Iccrea Banking Group has adopted a Group "Fair Value Policy" that assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

- mark to market: a valuation approach using inputs classified as Level 1 in the fair value hierarchy;
- the comparable approach: a valuation approach based on the use of the prices of instruments similar to the one undergoing valuation, which are classified as Level 2 in the fair value hierarchy;
- mark to model: a valuation approach based on the use of pricing models whose inputs are classified as Level 2 (in the case of the exclusive use of market observable inputs) or Level 3 (in the case of the use of at least one significant unobservable input) in the fair value hierarchy.

Mark to Market approach

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.

The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable approach

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;
- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

Mark to Model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may inputs that are not observable on the market be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The Group uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

With this in mind, a new framework for valuing derivatives was adopted, the so-called OIS Discounting approach, which basically uses:

- a yield curve based on the values indicated by the OIS-Eonia curve, from which we derive (through bootstrapping) the yield curve of the zero-coupon rates to be used to discount the future cash flows of the derivatives;
- a differentiated set of yield curves based upon the values indicated by the various Libor curves (e.g. 1-month Euribor, 3-month Euribor, six-month Euribor, etc.), from which we derive (through individual bootstrapping procedures) the respective yield curves of the forward rates: these rates are used to value the future cash flows of the derivatives. Clearly, the individual bootstrapping procedures must be calibrated so as to be consistent with the zero-coupon yield curve derived from the procedure indicated in point 1 so as to reproduce a result consistent with the values in observable markets.

The reason for the this new approach to valuing derivatives lies in the financial crisis that began in the second half of 2007, which led – among various consequences – to a review of the methodologies for pricing derivatives. Indeed, the classic approach – which assumes no arbitrage (which developed in the 1970s) and therefore the existence of a single, risk-free yield curve for lending and/or funding – has become inadequate as a result of the emergence of significant counterparty risk, necessitating the employment of mitigation techniques. More specifically, the use of collateral-backed derivatives – to mitigate that risk exposure – has become best practice in the market and this technique means that the valuation of derivatives much take account of the remuneration procedures for the collateral itself.

The new valuation framework incorporates the use of collateral in pricing derivatives.

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Log-normal Forward Model, while exotic options are values using the One Factor Trinomial Hull-White approach. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;

- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

In particular, the Group has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

A simplified building-block approach is used to estimate the CVA/DVA, which is obtained as the product of the estimated exposure at default (EAD), weighted for expected loss (LGD), and the probability of default occurring (PD).

The EAD is based on the mark-to-market approach, reduced by the value of any guarantees at the date the valuation is made without any add-on. The weighted average life of the portfolio is used for each counterparty to determine the probability of default (PD). No estimate of the wrong-way risk is made.

In order to estimate the PD and LGD for financial counterparties, we have adopted an implied market approach, namely they are derived from the listed prices for credit sensitive instruments, such as single-name or sector credit curves.

For transactions in derivatives, the Group has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;
- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 Valuation processes and sensitivity

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Group conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 Fair Value hierarchy

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or listed on non-active markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet). The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- bad debts and positions unlikely to be repaid valued on an individual basis: book value approximates fair value;
- securities issued:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- financial liabilities discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 Other information

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Group's financial statements.

QUANTITATIVE DISCLOSURES

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis: breakdown by fair value input level

	30/6/2018		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	106,843	539,664	124,401
a) financial assets held for trading	56,068	505,044	1,936
b) financial assets measured at fair value	-	-	-
c) other financial assets mandatorily measured at fair value	50,775	34,620	122,465
2. Financial assets measured at fair value through comprehensive income	275,971	15,197	42,682
3. Hedging derivatives	-	6,572	-
4. Property and equipment	14,750	467,038	-
5. Intangible assets	-	-	-
Total	**397,564**	**1,028,471**	**167,083**
1. Financial liabilities held for trading	5,288	511,849	-
2. Financial liabilities designated as at fair value	307	-	-
3. Hedging derivatives	-	85,220	-
Total	**5,595**	**597,069**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.4 Financial assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value input level

	30/6/2018			
	CA	L1	L2	L3
1. Financial assets measured at amortized cost	41,629,651	-	93,993	39,480,996
2. Investment property	14,219	-	-	14,219
3. Non-current assets and disposal groups held for sale	313,276	-	-	298
Total	**41,957,146**	**-**	**93,993**	**39,495,513**
1. Financial liabilities measured at amortized cost	41,587,212	19,436,575	1,488,532	6,016,433
2. Liabilities associated with assets held for sale	437,311	-	-	-
Total	**42,024,523**	**19,436,575**	**1,488,532**	**6,016,433**

Key:
CA =Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 – DISCLOSURE ON "DAY ONE PROFIT/LOSS"

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IFRS9 (paragraphs B.5.1.2 A (b)).

PART B
Information on the consolidated balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 30/6/2018
a) Cash	82,777
b) Demand deposits with central banks	2
Total	**82,779**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2018		
	L1	L2	L3
A. On-balance-sheet assets			
1. Debt securities	**52,768**	**59**	**-**
1.1 structured securities	1,249	-	-
1.2 other debt securities	51,519	59	-
2. Equity securities	**653**	**-**	**241**
3. Units in collective investment undertakings	**1,513**	**-**	**-**
4. Loans	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	-
Total (A)	**54,934**	**59**	**241**
B. Derivatives	-	-	-
1. Financial derivatives	**1,134**	**504,985**	**1,695**
1.1 trading	1,134	504,985	1,695
1.2 associated with fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	**-**	**-**	**-**
2.1 trading	-	-	-
2.2 associated with fair value option	-	-	-
2.3 other	-	-	-
Total (B)	**1,134**	**504,985**	**1,695**
Total (A+B)	**56,068**	**505,044**	**1,936**

The item reports debt securities, equity securities and the positive value of derivatives held for trading.

Specifically, sub-item B.1.1 reports the market value of derivatives originated by the Group' operations for the purposes of the sale of derivatives to banks and customers.

2.3 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

The table has not been completed because no financial assets were designated as at fair value.

2.5 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**26,055**	**30,688**	**3,017**
1.1 structured securities	-	14,429	-
1.2 other debt securities	26,055	16,259	3,017
2. Equity securities	**2,203**	**-**	**24,127**
3. Units in collective investment undertakings	**22,517**	**3,932**	**11,809**
4. Loans	**-**	**-**	**83,512**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	83,512
Total	**50,775**	**34,620**	**122,465**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item includes financial assets previously classified under loans and receivables, financial assets available for sale and financial assets measured at fair value that, following the introduction of IFRS 9 and not having passed the SPPI test, must be recognized under financial assets mandatorily measured at fair value.

“Debt securities – Structured securities” reports the value of the credit linked note – UBS London Branch-Anleihe (XS1170644840).

“Equity securities” reports Visa Inc. shares in the amount of about €11 million.

“Units in collective investment undertakings” includes the units of the closed-end investment fund Atlante in the amount of €8 million.

“Loans – Other” includes the insurance policy of Poste Vita SpA in the amount of €61 million.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 30/6/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**269,745**	**15,187**	**-**
1.1 structured securities	-	-	-
1.2 other debt securities	269,745	15,187	-
2. Equity securities	**6,226**	**10**	**42,682**
3. Loans	**-**	**-**	**-**
Total	**275,971**	**15,197**	**42,682**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The portfolio of financial assets measured at fair value through other comprehensive income includes financial assets previously classified under financial assets available for sale and is composed primarily of government securities and non-controlling shareholdings.

Level 3 – Equity securities includes AT1 securities subscribed in capital support transactions with the issuing mutual banks in the total amount of €26.4 million.

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total partial writeoffs*
Debt securities	244,991	-	40,334	-	(82)	(310)	-	-
Loans	-	-	-	-	-	-	-	-
Total	**244,991**	**-**	**40,334**	**-**	**(82)**	**(310)**	**-**	**X**
of which: financial assets purchased or originated credit-impaired	X	X	-	-	X	-	-	-

* Value to be reported for information purposes

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST – ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/6/2018					
	Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**446,097**	**-**	**-**	**-**	**-**	**446,044**
1. Fixed-term deposits	-	-	-	X	X	X
2. Reserve requirements	446,097	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Due from banks	**17,606,916**	**-**	**-**	**-**	**87,530**	**17,400,827**
1. Financing	17,299,940	-	-	-	85,689	17,093,162
1.1. Current accounts and demand deposits	585,239	-	-	X	X	X
1.2. Fixed-term deposits	75,304	-	-	X	X	X
1.3. Other financing:	16,639,397	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X
- Finance leases	15,857	-	-	X	X	X
- Other	16,623,540	-	-	X	X	X
2. Debt securities	306,976	-	-	-	1,841	307,665
2.1 Structured securities	36,747	-	-	-	-	-
2.2 Other debt securities	270,229	-	-	-	1,841	307,665
Total	**18,053,013**	**-**	**-**	**-**	**87,530**	**17,846,871**

The sub-item “reserve requirement” includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

The item “due from banks” is reported net of impairment losses.

The fair value is obtained using discounted cash flow analysis.

Amounts due from banks include “other financing - other” comprising:

- loans to the mutual banks connected with pool collateral operations, such as advances from the ECB secured with refinanceable securities, with a total value of €16.1 billion, of which €8.9 billion granted within the framework of the TLTRO II, against securities pledged as collateral by the mutual banks with a total fair value, net of the haircut, of €18.6 billion;
- cash collateral paid to bank counterparties to secure derivatives exposures supported by Credit Support Annexes (CSA) in the amount of €307.2 million;
- assignments of receivables by the mutual banks, counter-guaranteed by them, in the amount of €11.3 million.

The sub-item “Debt securities” includes:

- ordinary bonds issued by the mutual banks in the amount of €206.8 million;
- subordinated bonds issued by the mutual banks eligible for inclusion in own funds in the amount of €92.3 million (Lower Tier II).

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/6/2018					
	Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**11,480,672**	**1,221,913**	**-**	**-**	**4,682**	**11,196,147**
1.1. Current accounts	120,123	206,414	-	X	X	X
1.2. Repurchase agreements	1,630,894	-	-	X	X	X
1.3. Medium/long term loans	2,667,883	397,528	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	912,628	10,734	-	X	X	X
1.5. Finance leases	4,391,125	515,790	-	X	X	X
1.6. Factoring	348,301	59,916	-	X	X	X
1.7. Other loans	1,409,718	31,531	-	X	X	X
2. Debt securities	**10,873,707**	**346**	**-**	**-**	**3,622**	**10,745,643**
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	10,873,707	346	-	-	3,622	10,745,643
Total	**22,354,379**	**1,222,259**	**-**	**-**	**8,304**	**21,941,790**

The item "current accounts" mainly regards lending secured by mortgages for residential and commercial building.

The sub-items "Current accounts" and "Medium/long-term loans" include the bad debts acquired by the "Lucrezia Securitisation Srl" vehicle as part of initiatives to support distressed mutual banks with a total value of €109 million (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano), in respect of which Iccrea Banca undertook to subscribe all of the corresponding notes.

"Other" include:

- €832 million of cash collateral for Default Fund and margins paid to the Clearing & Guarantee Fund for transactions in secured funding;
- €222 million for orders in respect of property and equipment leases for which principal repayment is subordinate to the start of the leases;
- €106 million of sundry loans to the Mutual Bank Deposit Guarantee Fund;
- cash collateral paid to financial counterparties securing derivatives exposures supported by CSAs (Credit Support Annexes) in the amount of €29 million.

Debt securities classified here include:

- a minibond (as regulated by Decree Law 83/2012 ratified with Law 134/2012) subscribed by the subsidiary Iccrea BancaImpresa with a total value of €41.3 million;
- senior unrated notes issued by the "Lucrezia Securitisation Srl" vehicle for a total of €8.7 million as part of measures to resolve the crises at BCC Padovana ed Irpina (IT0005216392), BCC Crediveneto (IT0005240749) and BCC Teramano (IT0005316846)

The fair value is obtained using discounted cash flow techniques.

For the analysis of loan developments and the associated provisions, see the specific paragraph in the section on risk management (Section E).

4.5 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: GROSS AMOUNT AND TOTAL WRITEOFFS

		Gross amount				Total writeoffs			Total partial writeoffs*
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		11,135,998	-	51,454	2,073	1,504	5,263	1,728	-
Loans		27,812,501	626,130	1,606,379	2,276,214	41,765	45,807	1,162,697	41,667
Total	**30/6/2018**	**38,948,499**	**626,130**	**1,657,833**	**2,278,287**	**43,269**	**51,070**	**1,164,425**	**X**
of which: financial assets purchased or originated credit-impaired		X	X	-	31,357	X	-	22,244	-

* Value to be reported for information purposes

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

For more information on the objectives and strategies underpinning hedging operations, please see the disclosures in Part E – Risks and risk management policies.

5.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND LEVEL OF INPUT

	FV 30/6/2018			NV
	L1	L2	L3	30/6/2018
A. Financial derivatives				
1. Fair value	-	4,212	-	153,577
2. Cash flow	-	2,360	-	34,311
3. Investments in foreign operations	-	-	-	-
B. Credit derivatives				
1. Fair value	-	-	-	-
2. Cash flow	-	-	-	-
Total	**-**	**6,572**	**-**	**187,888**

Key
FV=Fair value
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

The table reports financial derivatives (interest rate swaps and currency swaps) used to hedge the risk of changes in the fair value – caused by the volatility of interest rates – of financial instruments in “financial assets” and “financial liabilities”, as detailed in the following table.

5.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Investments in foreign operations
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	895	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**895**	**-**	**-**	**-**
1. Financial liabilities	3,317	-	-	-	-	-	X	2,360	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**3,317**	**-**	**-**	**-**	**-**	**-**	**-**	**2,360**	**-**	**X**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

“Portfolio” regards the macro-hedging of a FVOCI portfolio of dollar-denominated securities hedged with an interest rate swap (IRS).

The item “Financial liabilities” (specific fair value hedging of interest rate risk) includes the positive values of interest rate swaps (IRS) hedging a fixed-rate bond issued by the Group.

The item “Financial liabilities” (specific cash flow hedging) includes cross currency interest rate swaps (CCIRS) hedging 3 dollar-denominated bonds issued by the Group.

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY - ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/6/2018
1. Positive adjustments	**646**
1.1 of specific portfolios:	-
a) financial assets measured at amortized cost	-
b) financial assets measured at fair value through comprehensive income	-
1.2 comprehensive	646
2. Negative adjustments	**(934)**
2.1 of specific portfolios:	-
a) financial assets measured at amortized cost	-
b) financial assets measured at fair value through comprehensive income	-
2.2 comprehensive	(934)
Total	**(288)**

The hedging was conducted for:

- 1 portfolio of collateralized loans, managed by the treasury unit, using overnight indexed swaps with nominal amount of €324 million;
- 1 FVOCI portfolio of dollar-denominated loans, managed using interest rate swaps for a total nominal amount of 98 million;
- 1 FVOCI portfolio of euro-denominated loans, managed using interest rate swaps for a total nominal amount of €45 million.

SECTION 7 – EQUITY INVESTMENTS - ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
A. Joint ventures	-	-	-	-	-	-
B. Companies subject to significant influence						
1. BCC Vita SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	49	49
2. BCC Assicurazioni SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	49	49
3. BCC Accademia	Rome	Rome	Significant influence	Iccrea Banca SpA	26	26
4. Hi-Mtf SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	25	25
5. M-Facility Srl	Rome	Rome	Significant influence	Iccrea Banca SpA	37	37
6. Car Server SpA	Reggio Emilia	Reggio Emilia	Significant influence	Iccrea BancaImpresa SpA	19	19
7. Satispay SpA.	Milan	Milan	Significant influence	Iccrea Banca SpA	16	16

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received*
A. Joint ventures	-	-	-
B. Companies subject to significant influence			
1. BCC Vita SpA	89,165	109,800	-
2. BCC Assicurazioni SpA	5,637	6,099	-
3. BCC Accademia SpA	132	132	-
4. Hi-Mtf SpA	1,562	1,562	-
5. M-Facility Srl	249	249	-
6. Car Server SpA	12,155	12,155	2,300
7. Satispay SpA	3,607	3,607	-
Total	**112,507**	**133,604**	**2,300**

* The dividends were received from investments accounted for using the equity method and have therefore been eliminated in consolidation.

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenue	Net interest income	Net adjustments of property and equipment and intangible assets	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax of discontinued operations	Net profit (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3)=(1) + (2)
A. Joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Companies subject to significant influence														
1. Bcc Vita SpA	X	3,028,207	120,896	1,129	2,960,866	289,791	X	X	13,521	8,898	-	8,898	(2,608)	6,290
2. Bcc Assicurazioni SpA	X	42,400	41,347	10,862	61,383	10,902	X	X	(123)	(175)	-	(175)	(770)	(945)
3. Bcc Accademia SpA*	X	1,074	1,376	-	2,089	2,506	X	X	100	49	-	49	-	49
4. Hi-Mtf SpA*	X	1,520	5,181	-	556	2,545	X	X	144	74	-	74	4	78
5. M-Facility S.r.l*.	X	-	1,023	400	89	-	X	X	(215)	(215)	-	(215)	-	(215)
6. Car Server SpA*	X	-	470,018	-	393,487	251,074	X	X	10,068	8,557	-	8,557	-	-
7. Satispay SpA	X	6,081	6,323		1,407	6,484	X	X	(3,815)	(3,815)	-	(3,815)	-	(3,815)

*Accounting data as at Dec. 31,2017

Impairment tests of equity investments

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income.

In the presence of evidence of an impairment, the amount of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value. The latter is represented by the greater of fair value, net of any costs to sell, and value in use.

No impairment losses were recognized during the period.

As regards the investment held by Iccrea Banca in BCC Vita, there was a difference between the carrying amount recognized in the financial statements of the Bank (€101.4 million) and the fraction of equity recognized in the consolidated financial statements (€86.1 million), which prompted an impairment test conducted as at December 31, 2017. More specifically the appraisal value of the company was estimated as the sum of adjusted shareholders' equity, the value of in force business and the value of new business (goodwill). Following the impairment test, the pro-rated economic value of the company (€110 million) was greater – even assuming a minimum scenario based

on a change of 0.5% in the discount rates (Ke and G) – than the value of the investment recognized in the separate and consolidated financial statements of Iccrea Banca SpA. Accordingly, no impairment loss was recognized.

At June 30, 2018 the company recorded a profit of €8.9 million. Furthermore, as part of the project for the creation of the new Mutual Banking Group, Iccrea is evaluating the possible corporate reorganization of the insurance and asset management sectors. Accordingly, Iccrea is assessing the possibility of preparing new company and distribution agreements in the insurance sector to extract new synergies between the asset management company and the Iccrea Group companies, within which the assessments of the companies will be carried out.

In view of the fact that the impairment test conducted for the preparation of the financial statements at December 31, 2017 showed the carrying amount of the investment posted in the individual financial statements was recoverable, taking account of the result for the period and bearing in mind the aforementioned reorganization of the companies of the insurance sector, the validity of the findings of the annual impairment testing can be considered confirmed.

As regards the investment held in BCC Assicurazioni, there is a difference between the carrying amount recognized in the financial statements of Iccrea Banca SpA (€8.1 million) and the fraction of equity recognized in the consolidated financial statements (€6.1 million).

For the purposes of impairment testing of the company at December 31, 2017, the economic value of capital was estimated using a market multiples approach using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. Following the impairment test, the pro-rated value of the company (€12.8 million) was greater than the value of the equity investment recognized in the separate financial statements of Iccrea Banca SpA and so no impairment loss was recognized.

At June 30, 2018 the company posted a loss of €170 thousand. Like BCC Vita, BCC Assicurazioni is part of the reorganization referred to above. In view of the fact that that the impairment test conducted for the preparation of the financial statements at December 31, 2017 showed the carrying amount of the investment posted in the individual financial statements was recoverable, bearing in mind the aforementioned reorganization of the companies of the insurance sector, the validity of the findings of the annual impairment testing can be considered confirmed.

As regards goodwill recognized on the acquisition of controlling interests, please see the disclosures presented in section 13.3 below.

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 30/6/2018
A. Opening balance	**111,676**
B. Increases	**4,362**
B.1 Purchases	-
B.2 Writebacks	-
B.3 Revaluations	4,362
B.4 Other changes	-
C. Decreases	**3,531**
C.1 Sales	-
C.2 Writedowns	685
C.3 Impairment	-
C.4 Other changes	2,846
D. Closing balance	**112,507**
E. Total revaluations	**1,803**
F. Total writedowns	**17,892**

“Writebacks/writedowns” mainly report increases and decreases in equity investments accounted for using the equity method in the net amount of €3.675 million.

“Other changes” reports the decline in the value of the investment in Car Server connected with the payment of dividends in the total amount of €2.3 million.

7.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT CONTROL OR SIGNIFICANT INFLUENCE

In “Part A – Accounting Policies”, Paragraph “A. 1 – General Information” and “Section 3 – Scope and methods of consolidation” sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise control over an investee company or another entity, as well as whether there is an agreement for joint control or the exercise of significant influence.

SECTION 8 – TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS - ITEM 80

The section has not been completed because there were no such positions as of the reporting date

SECTION 9 - PROPERTY AND EQUIPMENT - ITEM 90

9.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/6/2018
1. Owned assets	**195,732**
a) land	26,023
b) building	123,323
c) movables	2,121
d) electrical plants	32,925
e) other	11,340
2. Assets acquired under finance leases	**7,264**
a) land	-
b) building	-
c) movables	-
d) electrical plants	7,264
e) other	-
Total	**202,996**
of which: obtained through enforcement of guarantees received	9

The Group has opted to measure assets used in operations and investment property at cost, with the exception of real estate from the consolidation of the assets underlying the units in the real estate investment funds, for which fair value measurement has been maintained as determined on the basis of appraisals by independent external appraisers and reported in the accounts of the funds.

9.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	30/6/2018			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
1. Owned assets	**14,219**	**-**	**-**	**14,219**
a) land	-	-	-	-
b) building	14,219	-	-	14,219
2. Assets acquired under finance leases	**-**	**-**	**-**	**-**
a) land	-	-	-	-
b) building	-	-	-	-
Total	**14,219**	**-**	**-**	**14,219**
of which: obtained through enforcement of guarantees received	-	-	-	-

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS MEASURED AT FAIR VALUE

	30/6/2018		
	Level 1	Level 2	Level 3
1. Owned assets	**14,750**	**467,038**	**-**
a) land	-	-	-
b) building	14,750	467,038	-
2. Assets acquired under finance leases	**-**	**-**	**-**
a) land	-	-	-
b) building	-	-	-
Total	**14,750**	**467,038**	**-**
of which: obtained through enforcement of guarantees received	-	-	-

This item includes property from the consolidation of units of the "Securfondo" and "Securis Real Estate I, II, III". As discussed in "Part A– Accounting policies " the changes in the fair value of these properties are recognized in profit or loss under "Net gain (loss) from valuation at fair value of property and equipment and intangible assets".

9.5 INVENTORIES OF PLANT AND EQUIPMENT GOVERNED BY IAS 2: COMPOSITION

	30/6/2018
1. Inventories of plant and equipment obtained through enforcement of guarantees received	**-**
a) land	-
b) building	-
c) movables	-
d) electrical plants	-
e) other	-
2. Other inventories of plant and equipment	**4,849**
Total	**4,849**
of which: measured at fair value net of selling costs	-

The item reports plant and equipment returned from terminated leases.

SECTION 10 – INTANGIBLE ASSETS - ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/6/2018	
	Finite life	Indefinite life
A.1 Goodwill	**X**	**21,687**
A.1.1 pertaining to the Group	X	21,687
A.1.2 pertaining to non-controlling interests	X	-
A.2 Other intangible assets	**30,377**	**-**
A.2.1 Assets carried at cost:	30,377	-
a) internally generated intangible assets	4,608	-
b) other assets	25,769	-
A.2.2 Assets designated as at fair value:	-	-
a) internally generated intangible assets	-	-
b) other assets	-	-
Total	**30,377**	**21,687**

Goodwill reflects goodwill paid in the acquisition of certain controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici). The amount is unchanged on December 31, 2017.

Other intangible assets mainly comprise software.

The useful life of the Group's other intangible assets, mainly software, is between 3 and 5 years.

10.3 OTHER INFORMATION

With regard to the recognition methods for goodwill and other intangible assets, please see Part A – Accounting policies.

The table below shows the allocation of goodwill among the various cash generating units.

	Total 30/6/2018
Retail	16,671
Corporate	138
Institutional	4,877
Total	**21,686**

For the intangible assets with a finite useful life, amortization for the period was recognized in profit or loss (under item "220 Net adjustments of intangible assets").

In accordance with IAS 36, both intangible assets with an indefinite useful life and goodwill undergo impairment testing on an annual basis to verify the recoverability of their value. In particular, for intangible assets with a finite useful life, impairment testing is carried out any time the appropriate indicators show evidence of impairment. The recoverable amount is the higher of the value in use and the fair value less costs to sell.

Definition of cash generating units (CGUs)

In order to identify, for the purposes of IAS 36, any impairment of intangible assets with an indefinite life (including goodwill) that only generate cash flows jointly with other business activities, the estimation of value in use requires the preliminary allocation of those intangible assets to relatively independent organizational units that are capable of generating cash flows largely independent of those produced by other business areas but interdependent within the business unit generating them. In IAS/IFRS terminology, such business units are known as cash generating units (CGUs).

IAS 36 calls for the correlation of the level at which impairment is tested with the level of internal reporting at which management controls increases and decreases in this value.

In this regard, the definition of this level closely depends on organizational models and the assignment of management responsibilities for the purposes of defining policies for operations and the consequent monitoring. These models may diverge from the organizational structures of the legal entities through which operations are carried out, and are very often closely linked to the definition of operating segments at the basis of the segment reporting envisaged by IFRS 8.

These CGUs correspond to the Group's business units and, at the same time, are the core business areas considered in segment reporting. The carrying amount of the CGUs is determined in a manner consistent with the criterion for estimating their recoverable amount.

For a bank, the cash flows generated by a CGU cannot be identified without considering the cash flows from financial assets/liabilities, as these form part of the core business. In other words, the recoverable amount of the CGUs is impacted by the aforementioned cash flows and, therefore, their carrying amount must be determined in accordance with the scope of the estimation used in determining recoverable amount; thus, they also include financial assets/liabilities. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

Under this approach (so-called "equity side"), the carrying amount of Iccrea Group CGUs can be determined in terms of their contribution to consolidated shareholders' equity including any non-controlling interests.

The table below reports the carrying amounts of the CGUs and the goodwill allocated to each. As they are determined for the purpose of impairment testing, these values take account of the portion of goodwill attributable to non-controlling interests.

CGU	Carrying amount	Of which goodwill
Retail	1,634,034	16,671
Corporate	8,527,703	138
Institutional	25,447,716	4,877

Impairment testing results

With regard to the goodwill recognized for Banca Sviluppo, the impairment test as at December 31, 2017 was conducted using a mixed equity approach, with the separate equity amount adjusted by the independent estimated of goodwill, the latter being determined on the basis of the value of funding. Taking account of the valuation of 90 branches of the bank on the part of the Parent Company, for which various mutual banks had expressed an interest, 16 branches were sold during 2017 and the early months of 2018, and the acceptance of binding offers for 22 branches with a value of €6.6 million, equal to average goodwill of 1.2% on funding.

At June 30, 2018 Banca Sviluppo broke even. The bank is continuing negotiations with potential buyers for its branches, in line with its business plan. In view of the fact that there are no significant differences between the binding offers and the valuations produced in the impairment testing conducted as part of the preparation of the financial statements at December 31, 2017, the carrying amount of the goodwill recognized can be confirmed.

With regard to the goodwill recognized in the consolidated accounts for the acquisition of control of BCC Risparmio e Previdenza SGR (€10.5 million), an adjusted equity method was used to value the company. The impairment test supported the carrying amounts recognized at the reporting date.

As regards the goodwill of BCC Sistemi Informatici (€4.8 million), the impairment testing as at December 31, 2017 involved the estimation of the economic value of the company's capital using a market multiples approach. The market multiples approach values a company by using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. In this case, an international panel of companies operating in the IT sector and software development industry, which represent the main activities of BCC Sistemi Informatici, was considered using the market multiple P/BV (Price/Book Value).

As at June 30, 2018, the company posted a net profit of about €1 million.

In view of the fact that that the impairment test conducted for the preparation of the financial statements at December 31, 2017 showed the economic value of the company was significantly higher than the value of the equity interest and bearing in mind the net profit posted by the subsidiary, the carrying amount of the goodwill can be considered confirmed.

In view of the methods adopted, no growth rates or discount rates were adopted in the valuations. Accordingly, the associated disclosure requirement does not apply.

Sensitivity analyses

Since value in use is determined by using estimates and assumptions that may have some level of uncertainty, sensitivity analyses were performed, as required by the IFRS, to assess the sensitivity of the results obtained to changes in the parameters and the underlying hypotheses. The goodwill recorded has been confirmed.

SECTION 11 - TAX ASSETS AND LIABILITIES – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 DEFERRED TAX ASSETS: COMPOSITION

	30/6/2018
A. Gross deferred tax assets	**217,340**
A1. Loans (including securitizations)	162,611
A2. Other financial instruments	2,332
A3. Goodwill	9
A4. Deferred charges	-
A5 Property and equipment	402
A6. Provisions for risks and charges	17,041
A7. Entertainment expenses	-
A8. Personnel costs	1,849
A9. Tax losses	17,765
A10. Unused tax credits to deduct	3,928
A11. Other	11,403
B. Offsetting with deferred tax liabilities	**724**
C. Net deferred tax assets	**216,616**

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	30/6/2018
A. Gross deferred tax liabilities	**2,135**
A1. Capital gains tax in installments	626
A2. Goodwill	397
A3. Property and equipment	218
A4. Financial instruments	38
A5. Personnel costs	2
A6. Other	854
B. Offsetting with deferred tax assets	**724**
C. Net deferred tax liabilities	**1,411**

Deferred taxes not recognized

Deferred tax liabilities were not recognized in respect of the revaluation reserve established pursuant to Law 342/2000 (already net of the associated tax paid), Law 413/1991 and Law 196/1983. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €9.7 million.

11.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	Total 30/6/2018
1. Opening balance	**212,996**
2. Increases	**13,656**
2.1 Deferred tax assets recognized during the period	13,649
a) in respect of previous period	-
b) due to change in accounting policies	-
c) writebacks	-
d) other	13,649
2.2 New taxes or increases in tax rates	-
2.3 Other increases	7
3. Decreases	**13,634**
3.1 Deferred tax assets derecognized during the period	3,182
a) reversals	2,646
b) writedowns for supervening non-recoverability	-
c) due to changes in accounting policies	-
d) other	536
3.2 Reduction in tax rates	-
3.3 Other decreases	10,452
a) transformation in tax credits pursuant to Law 214/2011	8,015
b) other	2,437
4. Closing balance	**213,018**

11.4 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 30/6/2018
1. Opening balance	**172,066**
2. Increases	**27**
3. Decreases	**2,404**
3.1 Reversals	1,744
3.2 Conversion into tax credits	650
a) arising from losses for the period	650
b) arising from tax losses	-
3.3 Other decreases	10
4. Closing balance	**169,689**

11.5 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 30/6/2018
1. Opening balance	**2,356**
2. Increases	**-**
2.1 Deferred tax liabilities recognized during the period	-
a) in respect of previous period	-
b) due to change in accounting policies	-
c) other	-
2.2 New taxes or increases in tax rates	-
2.3 Other increases	-
3. Decreases	**630**
3.1 Deferred tax liabilities derecognized during the period	576
a) reversals	576
b) due to changes in accounting policies	-
c) other	-
3.2 Reduction in tax rates	-
3.3 Other decreases:	54
4. Closing balance	**1,726**

11.6 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 30/6/2018
1. Opening balance	**2,209**
2. Increases	**3,432**
2.1 Deferred tax assets recognized during the period	-
a) in respect of previous periods	-
b) due to change in accounting policies	-
c) other	-
2.2 New taxes or increases in tax rates	-
2.3 Other increases	3,432
3. Decreases	**1,314**
3.1 Deferred tax assets derecognized during the period	1,206
a) reversals	1,197
b) writedowns for supervening non-recoverability	-
c) due to changes in accounting policies	-
d) other	9
3.2 Reduction in tax rates	-
3.3 Other decreases	108
4. Closing balance	**4,327**

11.7 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 30/6/2018
1. Opening balance	**5,198**
2. Increases	**487**
2.1 Deferred tax liabilities recognized during the period	432
a) in respect of previous periods	-
b) due to change in accounting policies	-
c) other	432
2.2 New taxes or increases in tax rates	-
2.3 Other increases	55
3. Decreases	**5,281**
3.1 Deferred tax liabilities derecognized during the period	5,207
a) reversals	4,809
b) due to change in accounting policies	398
c) other	-
3.2 Reduction in tax rates	-
3.3 Other decreases	74
4. Closing balance	**404**

11.8 OTHER INFORMATION

A) Current tax assets

	30/6/2018
A. Gross current tax assets	**107,116**
A1. Corporate income tax (IRES) payments on account	-
A2. Regional business tax (IRAP) payments on account	21,348
A3. Other credits and withholdings	85,768
B. Offsetting with current tax liabilities	**1,242**
C. Net current tax assets	**105,874**

B) Current tax liabilities

	30/6/2018
A. Gross current tax liabilities	**3,767**
A1. IRES liabilities	748
A2. IRAP liabilities	3,000
A3. Other current income tax liabilities	19
B. Offsetting with current tax assets	**1,242**
C. Net current tax liabilities	**2,525**

SECTION 12 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

		30/6/2018
A. Assets held for sale		
A.1 Financial assets		300,204
A.2 Equity investments		-
A.3 Plant and equipment		13,072
of which: obtained through enforcement of guarantees received		-
A.4 Intangible assets		-
A.5 Other non-current assets		-
	Total A	**313,276**
	carried at cost	312,978
	at fair value level 1	-
	at fair value level 2	-
	at fair value level 3	298
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss		-
- Financial assets held for trading		-
- Financial assets measured at fair value		-
- Other financial assets mandatorily measured at fair value		-
B.2 Financial assets measured at fair value through other comprehensive income		-
B.3 Financial assets measured at amortized cost		-
B.4 Equity investments		-
B.5 Plant and equipment		-
of which: obtained through enforcement of guarantees received		-
B.6 Intangible assets		-
B.7 Other assets		-
	Total B	**-**
	carried at cost	-
	at fair value level 1	-
	at fair value level 2	-
	at fair value level 3	-
C. Liabilities associated with individual assets held for sale		
C.1 Debts		437,311
C.2 Securities		-
C.3 Other liabilities		-
	Total C	**437,311**
	carried at cost	437,311
	at fair value level 1	-
	at fair value level 2	-
	at fair value level 3	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost		-
D.2 Financial liabilities held for trading		-
D.3 Financial liabilities designated as at fair value		-
D.4 Provisions		-
D.5 Other liabilities		-
	Total D	**-**
	carried at cost	-
	at fair value level 1	-
	at fair value level 2	-
	at fair value level 3	-

12.2 OTHER INFORMATION

Assets and liabilities held for sale regard:

- assets and liabilities of the branches of Banca Sviluppo that are being sold to local mutual banks for which completion of the disposal is highly likely. As the fair value of the assets being sold is greater than their carrying amount, those assets are reported at their carrying amount;
- loans of Banca Sviluppo and Iccrea BancaImpresa involved in the securitization backed by the GACS mechanism in the amount of €46 million.

SECTION 13 - OTHER ASSETS - ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	30/6/2018
- Receivables for future premiums on derivatives	15,220
- Fees and commissions and interest to be received	28,206
- Tax receivables	72,152
- Receivables from social security institutions	249
- Tax credits	10,366
- Receivables from employees	3,442
- Corporate finance transactions (acquisitions)	17,664
- Items in transit between branches and items being processed	45,146
- Financial assets in respect of loans granted for a specific deal	1
- Accrued income not attributable to separate line item	269
- Prepaid expense not attributable to separate line item	34,057
- Leasehold improvements	642
- Other (security deposits, assets not attributable to other items)	51,328
- Consolidation adjustments	78,784
Total	**357,526**

The item “Tax receivables” is mainly composed of:

- VAT credits of €20.5 million
- stamp duty of €29.4 million;
- IRAP credits for which reimbursement has been requested of €23.4 million;
- tax credits of €3.5 million.
- withholding tax on current accounts and certificates of deposit of €4.9 million.

The item “Corporate finance transactions (acquisitions)” regards differences generated by the acquisition and sale of branches by Banca Sviluppo of Banca Romagna Cooperativa in LCA (€6 million) and Crediveneto in LCA (€7.6 million) as well as differences in respect of the disposal of branches of mutual banks totaling €2.4 million.

The item “Other” is mainly composed of:

- premiums to be received from derivatives business with customers of €5.9 million;
- fees and commissions from the electronic money sector in the amount of €19.6 million;
- trade receivables of €20.8 million.

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – ITEM 10

1.1 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - DUE TO BANKS: COMPOSITION BY TYPE

	Total 30/6/2018			
	CA	Fair Value		
		L1	L2	L3
1. Due to central banks	**13,794,065**	**X**	**X**	**X**
2. Due to banks	**5,539,479**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	2,796,873	X	X	X
2.2 Fixed-term deposits	2,667,247	X	X	X
2.3 Loans	43,595	X	X	X
2.3.1 Repurchase agreements	35,248	X	X	X
2.3.2 Other	8,347	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X
2.5 Other payables	31,764	X	X	X
Total	**19,333,544**	**28,743**	**1,962,287**	**19,378,478**

Key:
CA = Carrying amount
L1= Level 1
L2= Level 2
L3= Level 3

The item "due to central banks" represents financing from the ECB, falling due in June 2020, December 2020 and March 2021.

"Current accounts and demand deposits" include:

- correspondence accounts amounting to €26 million and demand deposits of €2,545 million (of which €124 million in foreign currency);
- cash collateral received from bank counterparties securing derivatives exposures supported by Credit Support Annexes of €163.7 million.

The sub-item "Fixed-term deposits" also includes deposits received from the mutual banks amounting to around €768 million for indirect compliance with the reserve requirement and foreign currency deposits of €176.5 million.

"Other payables" include:

- €28.5 million in payables for subscription/maintenance fees to be paid to bank counterparties for placement of own and third-party financial products;
- €1.9 million of cashier's checks issued and not yet presented.

The fair value is obtained using discounted cash flow techniques.

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/6/2018			
	CA	Fair Value		
		L1	L2	L3
1. Current accounts and demand deposits	**1,217,865**	**X**	**X**	**X**
2. Fixed-term deposits	**80,365**	**X**	**X**	**X**
3. Loans	**14,962,386**	**X**	**X**	**X**
3.1 Repurchase agreements	14,860,607	X	X	X
3.2 Other	101,779	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	**-**	**X**	**X**	**X**
5. Other payables	**1,128,425**	**X**	**X**	**X**
Total	**17,389,041**	**14,837,599**	**903,584**	**1,639,541**

Key:
CA=Carrying amount
L1= Level 1
L2= Level 2
L3= Level 3

"Current accounts and demand deposits" include €118 million in savings deposits and cash collateral paid to financial counterparties to secure derivatives exposures supported by Credit Support Annexes (CSA) of €44 million.

The sub-item "Repurchase agreements" is composed entirely of transactions with the Clearing and Guarantee Fund.

The sub-item "Loans – other" includes €93 million of loans made by Agos-Ducato SpA to the subsidiary BCC Credito Consumo SpA

The item "Other payables" essentially comprises:

- bankers' drafts issued but not yet presented for settlement in the amount of €361.6 million;
- liabilities in respect of assets assigned but not derecognized in securitizations by the Group companies in the amount of €544 million;
- third-party funds in administration, mainly with Cassa Depositi e Prestiti, in the amount of €93 million;
- prepaid cards of €94 million.

The fair value is obtained using discounted cash flow techniques.

1.3 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - SECURITIES ISSUED: COMPOSITION BY TYPE

	30/6/2018 Total			
	CA	Fair Value		
		L1	L2	L3
A. Securities				
1. Bonds	4,782,504	4,598,976	584,948	4,294,769
1.1 structured	34,115	32,508	1,606	-
1.2 other	4,748,389	4,566,468	583,342	4,294,769
2. Other securities	82,123	-	-	82,123
2.1 structured	-	-	-	-
2.2 other	82,123	-	-	82,123
Total	**4,864,627**	**4,598,976**	**584,948**	**4,376,892**

Key:
CA=Carrying amount
L1= Level 1
L2= Level 2
L3= Level 3

The item comprises bonds issued by the Group and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date, as well as unhedged bonds issued measured at amortized cost.

The item "Bonds– structured" mainly regards bonds with structures such as stepped and floored&capped.

"Other securities – other" include certificates of deposit issued by Banca Sviluppo SpA to customers.

The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2018				
	NV	Fair Value			Fair Value*
		Level 1	Level 2	Level 3	
A. On-balance-sheet liabilities					
1. Due to banks	593	592	8	-	601
2. Due to customers	3,564	3,592	-	-	3,591
3. Debt securities	-	-	-	-	
3.1 Bonds	-	-	-	-	
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3. Other	-	-	-	-	
3.2.1 Structured	-	-	-	-	X
3.2.2 Other	-	-	-	-	X
Total A	**4,157**	**4,184**	**8**	**-**	**4,192**
B. Derivatives					
1. Financial derivatives		1,104	511,841	-	
1.1 Trading	X	1,104	511,473	-	X
1.2 Associated with fair value option	X	-	-	-	X
1.3 Other	X	-	368	-	X
2. Credit derivatives		-	-	-	
2.1 Trading	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
Total B	**X**	**1,104**	**511,841**	**-**	**X**
Total (A+B)	**X**	**5,288**	**511,849**	**-**	**X**

Key:
NV= nominal or notional value
Fair value* = Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

Part A of the table reports short positions on debt securities generated by securities trading activities (shown under amounts due to banks or due to customers, depending on the assignor), which were closed in the first few days of July 2018.

The item includes the negative value of trading derivatives entered into by the Group on behalf of mutual banks.

"Financial derivatives – other" reports the value of derivatives contracts separated from financial liabilities measured at amortized costs (floor options on bonds).

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 30

3.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2018				
	NV	Fair value			Fair value*
		Level 1	Level 2	Level 3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X
1.2 Other	-	-	-	-	X
of which: - commitments to disburse funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X
2.2 Other	-	-	-	-	X
of which: - commitments to disburse funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
3. Debt securities	**285**	**307**	**-**	**-**	**294**
3.1 Structured	-	-	-	-	X
3.2 Other	285	307	-	-	X
Total	**285**	**307**	**-**	**-**	**294**

Key:
NV = nominal or notional value
Fair Value* = Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issue since the issue date

"Financial liabilities at fair value" refer to a stepped bond issued by Banca Sviluppo SpA maturing in March 2020.

SECTION 4 - HEDGING DERIVATIVES - ITEM 40

4.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

	NV	Fair value 30/6/2018		
	30/6/2018	L1	L2	L3
A) Financial derivatives	**4,045,578**	**-**	**85,220**	**-**
1) Fair value	4,002,689	-	82,744	-
2) Cash flows	42,889	-	2,476	-
3) Investments in foreign operations	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-
2) Cash flows	-	-	-	-
Total	**4,045,578**	**-**	**85,220**	**-**

Key:
NV=notional value
L1=Level 1
L2=Level 2
L3=Level 3

These are financial derivatives designated as hedges of the risk of changes in the fair value, caused by the volatility of interest rates, of financial instruments associated with bond issues, financial assets held for sale, the loan portfolio and variable-rate loans with average indexing, as reported in the following table.

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Investments in foreign operations
	Specific									
	Debt securities and interest rates	Equity securities and equity indices	Currencies and gold	Loans	Commodities	Other	Generic	Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	81,189	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	755	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**81,189**	**-**	**-**	**-**	**-**	**-**	**755**	**-**	**-**	**-**
1. Financial liabilities	800	X	-	-	-	-	X	2,476	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**800**	**-**	**-**	**-**	**-**	**-**	**-**	**2,476**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

The amount regarding specific fair value hedges on “Financial assets measured at amortized cost” refers to the negative value of derivative contracts (OIS, IRS) hedging:

- Fixed-rate lease credit;
- Government securities indexed to European and Italian inflation;
- BTP strips;
- Corporate bonds and a stepped bank bond;
- Fixed-rate deposits.

The amount regarding generic fair value hedges refers to a portfolio of:

- Fixed-rate deposits managed by the treasury using OISs;
- Fixed-rate euro-denominated FVOCI securities.

The item “financial liabilities” includes:

- fair value micro-hedging: the negative value of IRSs, hedging a fixed-floater bond;
- cash flow micro-hedging: the negative value of cross currency interest rate swaps (CCIRSs), hedging two dollar-denominated bonds issued by the Group.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/6/2018
Amounts due to social security institutions and central government	16,764
Amounts available to customers	31,740
Corporate finance transactions (acquisitions)	6,330
Liabilities for future premiums on derivatives	6,906
Tax payables due to tax authorities	20,554
Payables due to employees	25,767
Financial liabilities in respect of loans granted for a specific deal	11,481
Accrued expense not attributable to separate line item a	2,305
Deferred income not attributable to separate line item	26,634
Items being processed and items in transit between branches	106,313
Other (failed transactions acquired, trade payables, insurance payables, security deposits, liabilities not attributable to other items)	193,794
Consolidation adjustments	-
Balance of illiquid portfolio items	1,950
Tax consolidation mechanism	-
Total	**450,538**

The item “Amounts due to social security institutions e central government” includes €10 million in respect of solidarity funds for early termination incentives.

The item “amounts available to customers” includes:

- €19.8 million for amounts available for pensions to be disbursed to customers in the first few days of July;
- €1 million in expired bankers' drafts.

The item “Financial liabilities in respect of loans granted for a specific deal” regards funds provided by the EIB (J.E.S.S.I.C.A.)

The item “tax payables due to tax authorities” includes:

- €7.3 million in stamp duty;

The item “Payables due to employees” includes:

- €7.3 million for additional months’ pay (13th-month pay);
- €4.6 million for unused accrued holiday entitlement;
- €2.5 million for one-off provision and PDR

“Items being processed” includes:

- €69.4 million of items that will be settled in the early days of July.
- €5.7 million for e-money transactions.

The item “other” includes:

- €52.5 million for failed purchase transactions (€195.9 million in 2017);
- €77 million for trade items;

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

This item reports employee termination benefits, estimating the amount due to each employee in relation to the specific time the employment relationship ceases. The amount is calculated on an actuarial basis, considering the future time at which the actual financial outlay will be incurred, in compliance with the criteria established by IAS 19 concerning defined-benefit plans.

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	30/6/2018
A. Opening balance	**25,880**
B. Increases	**870**
B.1 Provisions for the period	527
B.2 Other increases	343
C. Decreases	**2,069**
C.1 Benefit payments	1,309
C.2 Other decreases	760
D. Closing balance	**24,681**
Total	**24,681**

Items Other increases/Other decreases mainly include the effects of the actuarial recalculation of the accrued obligation determined using the projected unit credit method (current service cost, interest cost and actuarial gains/losses).

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	30/6/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued	23,102
2. Provisions for other commitments and guarantees issued	-
3. Company pension plans	-
4. Other provisions for risks and charges	64,145
4.1 legal disputes	33,355
4.2 personnel expenses	1,907
4.3 other	28,883
Total	**87,247**

The sub-item 4.1 ""Legal disputes" mainly includes revocatory actions, litigation and disputes and legal costs for debt collection.

The sub-item 4.2 "Personnel expenses" mainly includes seniority bonuses for employees.

The sub-item 4.3 "Other" includes:

- €5.6 million in provisions for the estimated contingent liability in respect of former tenants of leased properties;
- €2.6 million euro in provisions for commitments to the Deposit Guarantee Fund;
- €15.9 million in other provisions (provisions for solidarity contracts, provisions for renovation/upgrading of plant and facilities under Safety Decree no. 81/2008) from mutual banks following acquisitions by the subsidiary Banca Sviluppo SpA.

SECTION 13 - SHAREHOLDERS' EQUITY - ITEMS 120, 130, 140, 150, 160, 170 AND 180

13.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each with a total value of €1,151,045,403.55 fully paid up. The Group held 468,267 Treasury shares.

13.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the period	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(584,222)	-
A.2 Shares in circulation: opening balance	**21,701,265**	**-**
B. Increases	**115,955**	**-**
B.1 New issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	115,955	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**21,817,220**	**-**
D.1 Treasury shares (+)	468,267	-
D.2 Shares at the end of the year	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-

13.3 Share capital – other information

Share capital entirely composed of ordinary shares with a value equal to subscribed share capital, which has been entirely paid in.

13.4 Earnings reserves: other information

Group reserves amount to €337 million and include: the legal reserve, the reserve for treasury shares and other reserves for a total of €405.7 million, as well as the negative FTA IFRS 9 reserve of -€75.8 million. Consolidation reserves, equal to €7.3 million, are generated by the elimination of the carrying amount of equity investments against the corresponding fraction of shareholders' equity of each investment.

The valuation reserves were a positive €40.3 million and include the reserves from the valuation of financial assets measured at fair value through other comprehensive income for -€14 million, the reserves on cash flow hedge derivatives of -€0.8 million, the reserves from special revaluation laws of €52.3 million, the negative reserve on actuarial gains (losses) for defined benefit plans of -€3 million, and the reserve from the valuation of investments in associated companies of €6 million.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 "NON-CONTROLLING INTERESTS"

	30/6/2018
Equity investments in consolidated companies with significant non-controlling interests	
1. BCC Risparmio & Previdenza S.G.r.p.A.	7,951
2. BCC Sistemi Informatici SpA	2
3. BCC Credito Consumo SpA	2,692
4. Banca Sviluppo SpA	37,353
Other equity investments	8,204
Total	**56,202**

NON-CONTROLLING INTERESTS: COMPOSITION

		30/6/2018
1.	Share capital	52,618
2.	Share premium reserve	639
3.	Reserves	(78)
4.	Treasury shares	-
5.	Valuation reserves	4
6.	Equity instruments	-
7.	Gain (loss) pertaining to non-controlling interests	3,019
Total		**56,202**

VALUATION RESERVES PERTAINING TO NON-CONTROLLING INTERESTS: COMPOSITION

	30/6/2018
1. Financial assets measured at fair value through other comprehensive income	(12)
2. Property and equipment	-
3. Intangible assets	-
4. Hedges of foreign operations	-
5. Cash flow hedges	-
6. Exchange rate differences	-
7. Non-current assets held for sale	-
8. Actuarial gain (loss) on defined-benefit plans	(71)
9. Portion of valuation reserves attributable to equity investments accounted for using equity method	-
10. Special revaluation laws	87
Total	**4**

PART C - Information on the consolidated income statement

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/6/2018
1. Financial assets measured at fair value through profit or loss	**674**	**-**	**36**	**710**
1.1 Financial assets held for trading	125	-	36	161
1.2 Financial assets measured at fair value	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	549	-	-	549
2. Financial assets measured at fair value through other comprehensive income	**4,138**	**-**	**X**	**4,138**
3. Financial assets measured at amortized cost	**34,322**	**175,554**	**X**	**209,876**
3.1 Due from banks	4,351	1,795	X	6,146
3.2 Loans to customers	29,971	173,759	X	203,730
4. Hedging derivatives	**X**	**X**	**-**	**-**
5. Other assets	**X**	**X**	**4**	**4**
6. Financial liabilities	**X**	**X**	**X**	**55,303**
Total	**39,134**	**175,554**	**40**	**270,031**
of which: interest income on impaired financial assets	54	16,117	-	16,171

"Loans to customers" include interest income in respect of finance leases in the amount of €82.2 million.

Interest income on financial liabilities includes about €35 million in respect of ECB loans and about €15 million in respect of transactions with the Clearing and Guarantee Fund.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/6/2018
1. Financial liabilities measured at amortized cost	(13,252)	(45,667)	X	(58,919)
1.1 Due to central banks	-	X	X	-
1.2 Due to banks	(8,323)	X	X	(8,323)
1.3 Due to customers	(4,929)	X	X	(4,929)
1.4 Securities issued	X	(45,667)	X	(45,667)
2. Financial liabilities held for trading	-	-	-	-
3. Financial liabilities measured at fair value	-	(14)	-	(14)
4. Other liabilities and provisions	X	X	(7)	(7)
5. Hedging derivatives	X	X	(13,710)	(13,710)
6. Financial assets	X	X	X	(40,987)
Total	**(13,252)**	**(45,681)**	**(13,717)**	**(113,637)**

"Financial assets" includes interest expense in the amount of €37 million in respect of collateralized loans with the mutual banks.

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	30/6/2018
a) guarantees issued	940
b) credit derivatives	-
c) management, intermediation and advisory services	84,197
1. trading in financial instruments	2,583
2. foreign exchange	140
3. asset management	31,811
3.1 individual	831
3.2 collective	30,980
4. securities custody and administration	3,051
5. depository services	-
6. securities placement	1,888
7. order collection and transmission	712
8. advisory services	814
8.1 concerning investments	225
8.2 concerning financial structure	589
9. distribution of third-party services	43,198
9.1 asset management	-
9.1.1 individual	-
9.1.2 collective	-
9.2 insurance products	2,127
9.3 other	41,071
d) collection and payment services	21,418
e) servicing activities for securitizations	206
f) services for factoring transactions	1,898
g) tax collection services	-
h) management of multilateral trading systems	-
i) holding and management of current accounts	3,179
j) other services	184,891
Total	**296,729**

2.2 Fee and commission expense: composition

	Total 30/6/2018
a) guarantees issued	(563)
b) credit derivatives	-
c) management, intermediation and advisory services:	(22,336)
1. trading in financial instruments	(465)
2. foreign exchange	(35)
3. asset management	(18,725)
3.1 own portfolio	(18,725)
3.2 third party portfolio	-
4. securities custody and administration	(1,683)
5. securities placement	(1,428)
6. off-premises distribution of securities, products and services	-
d) collection and payment services	(969)
e) other services	(160,487)
Total	**(184,355)**

3.1 Dividends and similar revenue: composition

	Total 30/6/2018	
	Dividends	Similar revenue
A. Financial assets held for trading	-	3
B. Other financial assets mandatorily measured at fair value	-	-
C. Financial assets measured at fair value through other comprehensive income	-	10
D. Equity investments	1,258	-
Total	**1,258**	**13**

Dividends mainly refer to dividends on investments held in Investire SGR, ICBPI, Cattolica Assicurazioni SpA, Intermonte SIM SpA and SIA SSB SpA.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES - ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gain (A+B) - (C+D)
1. Financial assets held for trading	**15**	**6,775**	**(610)**	**(4,787)**	**1,393**
1.1 Debt securities	15	6,342	(253)	(4,677)	1,427
1.2 Equity securities (other than equity investments)	-	235	(171)	(67)	(3)
1.3 Units in collective investment undertakings	-	134	(186)	(15)	(67)
1.4 Loans	-	-	-	-	-
1.5 Other	-	64	-	(28)	36
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(11,439)**
4. Derivatives	**19,257**	**52,853**	**(14,362)**	**(55,093)**	**15,711**
4.1 Financial derivatives:	19,257	52,853	(14,362)	(55,093)	15,711
- on debt securities and interest rates	17,708	52,487	(2,061)	(48,363)	19,771
- on equity securities and equity indices	1,549	366	(125)	(1,989)	(199)
- on foreign currencies and gold	X	X	X	X	13,056
- other	-	-	(12,176)	(4,741)	(16,917)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**19,272**	**59,628**	**(14,972)**	**(59,880)**	**5,665**

"Financial assets and liabilities: foreign exchange differences" reports, regardless of the original portfolio, the balance of changes in the value of financial assets and liabilities denominated in foreign currency, correlated with the amount under “Financial derivatives on foreign currencies and gold”.

SECTION 5 – NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/6/2018
A. Gains on:	
A.1 Fair value hedges	3,258
A.2 Hedged financial assets (fair value)	41,334
A.3 Hedged financial liabilities (fair value)	366
A.4 Cash flow hedges	2,115
A.5 Assets and liabilities in foreign currencies	-
Total income from hedging activities (A)	**47,073**
B. Loss on:	
B.1 Fair value hedges	(35,055)
B.2 Hedged financial assets (fair value)	(9,477)
B.3 Hedged financial liabilities (fair value)	(2,923)
B.4 Cash flow hedges	-
B.5 Assets and liabilities in foreign currencies	(2,118)
Total expense on hedging activities (B)	**(49,573)**
C. Net gain (loss) on hedging activities (A - B)	**(2,500)**
of which: net gain (loss) of hedges of net positions (IFRS 7 24C. letter b) vi); IFRS 9 6.6.4)	-

The amounts regard the following transactions:

- hedges of 4 bonds issued by the Group in US dollars with cross currency interest rate swaps;
- hedges of a fixed-rate lease portfolio with interest rate swaps;
- hedges of treasury deposits with overnight indexed swaps;
- hedges of corporate and bank bonds with asset swaps;
- macro-hedges of portfolios of deposits with overnight indexed swaps;
- macro-hedges of portfolios of euro- and dollar-denominated FVOCI securities with interest rate swaps
- hedges of 3 bonds issued by the Group with interest rate swaps and interest rate options;
- hedges of fixed rate and inflation-linked Italian government securities (BTPs) with asset swaps;
- hedges of coupon strips on BTPs with interest rate swaps.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE - ITEM 100

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/6/2018		
	Gains	Losses	Net gain (loss)
Financial assets			
1. Financial assets measured at amortized cost	17,313	(1)	17,312
1.1 Due from banks	49	(1)	48
1.2 Loans to customers	17,264	-	17,264
2. Financial assets measured at fair value through other comprehensive income	14,269	(77,673)	(63,404)
2.1 Debt securities	14,269	(77,673)	(63,404)
2.2 Loans	-	-	-
Total assets	**31,582**	**(77,674)**	**(46,092)**
Financial liabilities measured at amortized cost			
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Securities issued	322	(2,419)	(2,097)
Total liabilities	**322**	**(2,419)**	**(2,097)**

The net loss of €48.2 million breaks down as follows:

- net loss on the disposal of financial assets (€63.4 million), reflecting a loss of €76 million on the disposal of the entire HTCS investment portfolio (government securities);
- gains on the disposal of financial assets measured at amortized cost in the amount of €17.3 million (government securities);
- losses on the repurchase of securities issued previously of €2 million.

SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**18**	**-**	**-**	**-**	**18**
2.1 Securities issued	18	-	-	-	18
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	**-**	**-**	**-**	**-**	**-**
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**18**	**-**	**-**	**-**	**18**

7.2 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**5,187**	**66**	**(4,311)**	**(1)**	**941**
1.1 Debt securities	3	66	(3,352)	(1)	(3,284)
1.2 Equity securities	1,904	-	-	-	1,904
1.3 Units in collective investment	3,280	-	(848)	-	2,432
1.4 Loans	-	-	(111)	-	(111)
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**5,187**	**66**	**(4,311)**	**(1)**	**941**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK - ITEM 130

8.1 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Writedowns(1)			Writebacks(2)		Total
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	30/6/2018
		Writeoffs	Other			
A. Due from banks	**(35)**	**-**	**-**	**503**	**-**	**468**
- Loans	(35)	-	-	493	-	458
- Debt securities	-	-	-	10	-	10
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
B. Loans to customers	**(28,014)**	**(21,903)**	**(120,317)**	**26,771**	**90,526**	**(52,937)**
- Loans	(23,349)	(21,903)	(120,317)	26,498	90,526	(48,545)
- Debt securities	(4,665)	-	-	273	-	(4,392)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(28,049)**	**(21,903)**	**(120,317)**	**27,274**	**90,526**	**(52,469)**

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Writedowns(1)			Writebacks(2)		Total
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	30/6/2018
		Writeoffs	Other			
A. Debt securities	**(161)**	**-**	**-**	**-**	**-**	**(161)**
B Loans	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
of which: financial assets purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(161)**	**-**	**-**	**-**	**-**	**(161)**

SECTION 9 – GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION – ITEM 140

The section has not been completed because there were no such positions as of the reporting date.

SECTION 10 - NET PREMIUMS - ITEM 160

The section has not been completed because there were no such positions as of the reporting date.

SECTION 11 - NET OTHER INCOME (EXPENSE) FROM INSURANCE ACTIVITIES - ITEM 170

The section has not been completed because there were no such positions as of the reporting date

SECTION 12 - ADMINISTRATIVE EXPENSES - ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/6/2018
1) Employees	**(94,204)**
a) wages and salaries	(65,327)
b) social security contributions	(16,752)
c) termination benefits	(813)
e) allocation to employee termination benefit provision	(548)
g) payments to external pension funds:	(4,841)
- defined contribution	(4,841)
i) other employee benefits	(5,923)
2) Other personnel	**(1,214)**
3) Board of Directors and members of Board of Auditors	**(2,248)**
4) Retired personnel	**-**
Total	**(97,666)**

12.5 Other administrative expenses: composition

	Total 30/6/2018
Information technology	**(59,233)**
Property and movables	**(5,025)**
- rental and fees	(2,151)
- ordinary maintenance	(2,605)
- security	(269)
Goods and services	**(15,516)**
- telephone and data transmission	(7,113)
- postal	(2,687)
- asset transport and counting	(441)
- electricity, heating and water	(1,483)
- transportation and travel	(3,143)
- office supplies and printed materials	(564)
- subscriptions, magazines and newspapers	(85)
Professional services	**(24,900)**
- professional fees (other than audit fees)	(13,212)
- audit fees	(460)
- legal and notary costs	(2,973)
- court costs, information and title searches	(903)
- insurance	(652)
- administrative services	(6,700)
Promotional, advertising and entertainment expenses	**(4,572)**
Association dues	**(3,838)**
Donations	**(7)**
Other	**(9,013)**
Indirect taxes and duties	**(46,640)**
- stamp duty	(9,367)
- long-term loan tax - Pres. Decree 601/73	(89)
- municipal property tax	(1,050)
- financial transaction tax	(10)
- other indirect taxes and duties	(36,124)
Total	**(168,744)**

Other administrative expenses in the period include the ordinary contribution to the National Resolution Fund (BRRD) totaling €34.8 million and costs for the project to establish the Mutual Banking Group of about €7.2 million. In 2017 the contribution to the National Resolution Fund totaled €23.2 million.

These amounts are shown net of VAT, Consob fees and expenses.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES - ITEM 200

13.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	30/6/2018		
Net provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued: composition	**Provisions**	**Reallocations of excesses**	**Total**
Net provisions: commitments to disburse funds Stage 1	(942)	820	(232)
Net provisions: commitments to disburse funds Stage 2	(410)	144	(266)
Net provisions: commitments to disburse funds Stage 3	-	853	853
Net provisions: financial guarantees issued Stage 1	(2,526)	2,323	(203)
Net provisions: financial guarantees issued Stage 2	(7,002)	6,058	(944)
Net provisions: financial guarantees issued Stage 3	-	323	323

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/6/2018		
Other net provisions: composition	**Provisions**	**Reallocations of excesses**	**Total**
Net provisions: Legal disputes	(2,325)	1,066	(1,259)
Net provisions: Other	(1,382)	2,315	933

SECTION 14 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT - ITEM 210

14.1. Net adjustments of property and equipment: composition

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustment (a + b - c)
A. Property and equipment				
A.1 owned	(7,951)	(25)	-	(7,975)
- operating assets	(7,951)	-	-	(7,950)
- investment property	-	-	-	-
- inventories	X	(25)	-	(25)
A.2 acquired under finance leases	(2,177)	-	-	(2,177)
- operating assets	(2,177)	-	-	(2,177)
- investment property	-	-	-	-
Total	**(10,128)**	**(25)**	**-**	**(10,152)**

SECTION 15 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 220

15.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b + c)
A. Intangible assets				
A.1 owned	(3,768)	-	-	(3,768)
- generated internally by the Group	(246)	-	-	(246)
- other	(3,522)	-	-	(3,522)
A.2 acquired under finance leases	-	-	-	(1)
Total	**(3,768)**	**-**	**-**	**(3,769)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/6/2018
Expenses connected with leasing services (consulting, insurance, taxes and duties, capital losses)	(14,238)
Prior-year expenses not attributable to separate line item	(515)
Outsourcing costs	(6)
Sundry charges	(5,275)
Amortization of expenditure for leasehold improvements	(89)
Other expenses on corporate finance transactions	(17)
Other expenses	(1,643)
Consolidation adjustments	(4,934)
Total	**(26,717)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/6/2018
A) Recovery of expenses	**16,085**
Recovery of taxes	7,549
Services rendered to Group companies	(4)
Recovery of sundry charges	8,539
B) Other income	**54,754**
Property rental income	172
Reductions in liabilities not attributable to separate line item	49
Income not attributable to separate line item	226
Other income from finance leasing	10,502
Other income	43,805
Total	**70,838**

The recovery of taxes and duties mainly regard current accounts, credit cards and savings passbooks and certificates of deposit.

"Other income" includes:

- income from finance lease operations totaling €6.3 million.
- income from the invoicing of IT outsourcing services in the amount of €33 million by the subsidiary BCC Sistemi Informatici SpA

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/6/2018
1) Joint ventures	
A. Gains	-
1. Revaluations	-
2. Gains on disposals	-
3. Writebacks	-
4. Other income	-
B. Losses	-
1. Writedowns	-
2. Impairment	-
3. Losses on disposal	-
4. Other expenses	-
Net profit (loss)	**-**
2) Entities under significant influence	
A. Gains	4,360
1. Revaluations	4,360
2. Gains on disposals	-
3. Writebacks	-
4. Other income	-
B. Losses	(686)
1. Writedowns	(686)
2. Impairment	-
3. Losses on disposal	-
4. Other expenses	-
Net profit (loss)	**3,674**
Total	**3,674**

The item reports the financial impact of the equity measurement of investments in associates.

SECTION 18 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 260

18.1 NET ADJUSTMENT TO FAIR VALUE (OR REVALUED AMOUNT) OR ESTIMATED REALIZABLE VALUE OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS: COMPOSITION

	Revaluations	Writedowns	Exchange rate differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Property and equipment	**-**	**(9,522)**	**-**	**-**	**(9,522)**
A.1 owned:	-	(9,522)	-	-	(9,522)
- operating assets	-	-	-	-	-
- investment property	-	(9,522)	-	-	(9,522)
A.2 acquired under finance leases:	-	-	-	-	-
- operating assets	-	-	-	-	-
- investment property	-	-	-	-	-
A.1 owned:	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 owned:	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 acquired under finance leases	-	-	-	-	-
Total	**-**	**(9,522)**	**-**	**-**	**(9,522)**

The item includes capital gains/losses connected with the fair value measurement of properties held by consolidated real estate investment funds.

SECTION 19 - GOODWILL IMPAIRMENT - ITEM 270

There were no such positions as of the reporting date.

SECTION 20 - GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS - ITEM 280

20.1 Gains (losses) from disposal of investments: composition

	Total 30/6/2018
A. Property	(3)
- gains	1
- losses	(4)
B. Other assets	300
- gains	300
- losses	-
Net gain (loss)	**297**

SECTION 21 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS - ITEM 300

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/6/2018
1. Current taxes (-)	(1,903)
2. Changes in current taxes from previous periods (+/-)	(399)
3. Reduction of current taxes for the period (+)	-
3.*bis* Reduction of current taxes for the period for tax credits under Law 214/2011	-
4. Change in deferred tax assets (+/-)	681
5. Change in deferred tax liabilities (+/-)	630
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(991)

SECTION 22 - PROFIT (LOSS) AFTER TAX OF DISCONTINUED OPERATIONS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAX OF DISCONTINUED OPERATIONS: COMPOSITION

The section has not been completed because there were no such positions as of the reporting date.

22.2 BREAKDOWN OF INCOME TAXES OF DISCONTINUED OPERATIONS

The section has not been completed because there were no such positions as of the reporting date.

SECTION 23 - NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 340

23.1 BREAKDOWN OF ITEM 340 "PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS"

	Total 30/6/2018
Consolidated equity investments with significant non-controlling interests	**3,019**
1. Bcc Risparmio & Previdenza S.G.R.p.A.	1,499
2. Bcc Sistemi Informatici SpA	-
3. Bcc Credito Consumo	285
4. Bcc Gestione Crediti	966
Other equity investments	**269**
Total	**3,019**

SECTION 24 - OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

SECTION 25 - EARNINGS PER SHARE

The ordinary shares of the Parent Company, Iccrea Holding SpA, are not traded on a public market and the company not file its financial statements with CONSOB in order to issue ordinary shares on a public market. Accordingly, IAS 33 does not apply.

25.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The table was not completed as there were no such positions as of the reporting date.

25.2 OTHER INFORMATION

No further information to report.

PART D – Consolidated Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		30/6/2018
10.	**Net profit (loss) for the period**	**(70,103)**
	Other comprehensive income not recyclable to profit or loss:	
20.	Equity securities designated as at fair value through other comprehensive income:	(6,639)
	a) fair value changes	(6,639)
	b) transfers to other elements of shareholders' equity	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-
	a) fair value changes	-
	b) transfers to other elements of shareholders' equity	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-
	a) fair value changes (hedged instrument)	-
	b) fair value changes (hedging instrument)	-
50.	Property and equipment	-
60.	Intangible assets	-
70.	Defined benefit plans	414
80	Non-current assets and disposal groups held for sale	-
90.	Valuation reserves of equity investments accounted for with equity method	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss:	(2)
	Other comprehensive income recyclable to profit or loss	
110.	Hedging of investments in foreign operations:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
120.	Foreign exchange differences:	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
130.	Cash flow hedges:	342
	a) fair value changes	2,457
	b) reversal to income statement	(2,115)
	c) other changes	-
	of which: result on net positions	-
140.	Hedging instruments (undesignated elements):	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
150.	Financial assets (other than equity investments) measured at fair value through other comprehensive income:	(14,241)
	a) fair value changes	(6,165)
	b) reversal to income statement	(8,076)
	- adjustments for credit risk	(422)
	- gain/loss on realization	(7,654)
	c) other changes	-
160.	Non-current assets and disposal groups held for sale:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
170.	Valuation reserves of equity investments accounted for with equity method:	(1,655)
	a) fair value changes	(1,655)
	b) reversal to income statement	-
	- impairment adjustments	-
	- gain/loss on realization	-
	c) other changes	-
180.	Income taxes on other comprehensive income recyclable to profit or loss	2,303
190.	**Total other comprehensive income**	**(19,478)**
200.	**Comprehensive income (item 10+190)**	**(89,581)**
210.	Consolidated comprehensive income pertaining to non-controlling interests	3,082
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**(92,663)**

PART E – Risk and risk management policies

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

- ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

The risk management function is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the risk management function, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

- RISK MANAGEMENT STRUCTURE

During the first half of 2018, the reorganization of the Group Risk Management function was approved by the competent bodies, in continuity with the corporate governance project from 2017 and in consideration of the needs that have arisen in connection with the reform of the mutual banking system, as well as constant dialogue with the supervisory authorities.

As at June 30, 2018, the organizational structure of the Risk Management function remains unchanged compared with that discussed in the Annual Report at December 31, 2017.

Consistent with the centralized governance model, the upcoming organizational structure envisages a risk management model with functional governance and responsibility centralized at the Parent Company of all the affiliated banks involved in the creation of the new Mutual Banking Group (MBG), with Iccrea Banca as Parent Company. This model will generally be implemented with the outsourcing of risk management functions to the Parent Company, with the adoption of specific service contracts outsourcing the function.

With a view to the adoption of this model, and in consideration of the need to have a “organizational” structure that supports the new corporate configuration, the main lines of development underpinning that reorganization concerned the need to:

- act as a “control center” for the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the early warning system and the guarantee mechanism;
- coordinate local risk management officers, facilitating dialogue with the other specialist units of the Risk Management department;
- adopt an organizational unit dedicated to validating the models developed internally to quantify the risks to which the MBG will be exposed;
- implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation.
- Bearing in mind the foregoing, the reorganization of the Risk Management function involved the following organizational measures:
- the establishment of the “Mutual Bank Risk Management” unit, reporting directly to the CRO area in order to give the Parent Company's Risk Management function a “specialized hub” for managing the risks to which the banks affiliated with the upcoming MBG are exposed;

- the strengthening of the units dedicated to managing credit, financial and operational risks, reporting to the new "Group Risk Management" unit, which is in charge of the operation of the Bank and Group risk control system, developing the appropriate methods for measuring current and prospective risks;
- the establishment of the "Risk Governance and Validation" unit, reporting directly to the CRO area. It is involved in the definition and operational maintenance of the methodological framework for risk governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR) and in the validation of the models developed internally to quantify risks.

With regard to the governance of risk management arrangements, functional responsibility for the Risk Management function has been retained by the Parent Company. More specifically the Risk Manager position at the Parent Company was assigned to the CRO, while:

- at the subsidiaries that role is filled by the heads of the Risk Management units of the subsidiaries, who report functionally to the head of Group Risk Management and hierarchically to the board of the subsidiary to which they belong;
- at the affiliated mutual banks, the heads of their Risk Management units report to the head of the local Risk Management unit of the hub to which they belong.

Following the above reorganization, the CRO area is structured into three main units:

- ***Risk Governance and Validation***, which is involved in the definition and operational maintenance of the main risk governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR) and in the validation of the models developed internally to quantify the risks to which the MBG is exposed.
- ***Group Risk Management***, which constantly monitors and mitigates the overall exposure of the Group and each individual unit to credit, financial, operational and other significant risks, in compliance with the limits established in internal rules and supervisory regulations.
- ***Mutual Bank Risk Management***, which is involved in developing methods and tools for the ongoing monitoring of the affiliated banks, as well as in monitoring the risk profile and the periodic updating of the risk categories assigned to each affiliated bank.

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the risk management function on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business. More specifically, the Risk Management units of the subsidiaries report functionally to:

- the Risk Management unit of the Parent Company for BCC Risparmio e Previdenza, Iccrea BancaImpresa, BCC Credito Consumo, BCC Factoring, BCC Lease and Banca Mediocredito del Friuli Venezia Giulia;
- the Mutual Bank Risk Management unit for Banca Sviluppo.

MAIN DUTIES OF THE RISK MANAGEMENT FUNCTION

- The responsibilities of the Risk Management function include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. More specifically, the function participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:
- compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
- consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP.

The risk assumption and management framework:

- consists of organizational structures and corporate processes (operating, administrative and business), including line controls;
- supporting applications;
- risk governance policies (policies, limits, responsibilities);
- methodologies;
- risk measurement and assessment criteria;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system.

In this area, it:

- develops risk measurement and assessment methods and models;
- performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;
- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
- identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Iccrea Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.)..

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- Risk identification (knowledge): this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- Assessment/measurement of the identified risks (awareness): this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).
- Risk prevention and attenuation (strategy): this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- Monitoring and reporting (tracking and control): this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework,

providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).

- Risk management and mitigation (reaction and proactivity): this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

SECTION 1 – RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total
1. Financial assets measured at amortized cost	381,288	662,933	69,486	173,896	40,342,048	41,629,651
2. Financial assets measured at fair value through other comprehensive income	108,395	-	-	-	176,537	284,932
3. Financial assets designated as at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	583	-	142,689	143,272
5. Financial assets held for sale	47,599	12,735	1,944	7,382	230,543	300,203
Total 30/6/2018	**537,282**	**675,669**	**72,013**	**181,279**	**40,891,817**	**42,358,060**

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired assets				Unimpaired assets			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs*	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	2,278,235	1,164,527	1,113,708	44,544	40,610,010	94,425	40,515,585	41,629,293
2. Financial assets measured at fair value through other comprehensive income	108,566	171	108,395	-	176,759	221	176,538	284,933
3. Financial assets designated as at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	583	-	583	-	X	X	142,689	143,272
5. Financial assets held for sale	202,639	140,360	62,279	5	243,917	5,993	237,925	300,203
Total 30/6/2018	**2,590,023**	**1,305,058**	**1,284,965**	**44,549**	**41,030,687**	**100,639**	**41,072,737**	**42,357,702**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	5,614	-	560,641
2. Hedging derivatives	-	-	6,572
Total 30/6/2018	**5,614**	**-**	**567,213**

B. DISCLOSURES ON STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

a. restricted activities;

b. a narrow and well-defined objective, such as to provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;

c. insufficient equity to permit the structured entity to finance its activities without subordinated financial support;

d. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Iccrea Banking Group has exposures to structured entities that mainly operate as special purpose vehicles for securitizations and closed- or open-end securities/real estate investment funds in which the Group has subscribed units or to which it has lent funds.

For the purpose of this section, transactions carried out with special purpose securitization vehicles are not considered. For more on that type of structured entity, please see section C. Securitization and section E. Disposals in Part E of the consolidated notes to the financial statements.

B.1 CONSOLIDATED STRUCTURED ENTITIES

A structural entity is consolidated in the presence of a contractual/non-contractual involvement that gives rise to control over the relevant activities of the entity and exposes the Group to variability of returns from the performance of that entity. More specifically, structured entities consolidated by the Iccrea Group are:

- Fondo Securfondo;
- Fondo Securis Real Estate I;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III

The following table summarizes the on-and off-balance-sheet exposures held by Group companies in respect of the consolidated structured entities noted above.

These exposures are eliminated in consolidation: in order to fully represent the involvement in the real estate risk underlying the investment in the funds, it was decided to recognize the underlying real estate portfolio rather than the units subscribed.

Structured entity	Total assets	Off-balance-sheet exposures
Securfondo	14,750	-
Fondo Securis Real Estate I	226,194	-
Fondo Securis Real Estate II	142,010	-
Fondo Securis Real Estate III	98,834	-

B.2 STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES

B.2.1. STRUCTURED ENTITIES CONSOLIDATED FOR SUPERVISORY PURPOSES

The Group does not have exposures to structured entities that are unconsolidated for accounting purposes but consolidated for supervisory purposes.

B.2.2. OTHER STRUCTURED ENTITIES

The Group has exposures to unconsolidated structured entities, mainly regarding units subscribed and loans granted to securities/real estate investment funds (collective investment undertakings - CIUs).

SECTION 2 – RISKS WITHIN SCOPE OF PRUDENTIAL CONSOLIDATION

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

To ensure interaction among all the units and bodies with control and monitoring duties, the Iccrea Group has introduced the following criteria within its organization that characterize the entire credit function:

- processing of loan applications, leading to the formulation of a loan proposal;
- approval of the loan application;
- management of position: this comprises all of the activities involved in monitoring and managing outstanding loans.

In view of the multiple units within the individual Group companies that are responsible for managing credit risk, the management process is based on the following principles:

- attribution of the responsibilities of the body with strategic oversight functions and the body with management functions in the definition, implementation and supervision of the credit governance system and the associated credit risk management processes;

- independence of control functions, with clear separation of responsibilities and elimination of conflicts of interest between control units and business units;
- attribution of responsibilities to all organizational levels, designed to ensure the effective implementation of strategies and governance of the credit and credit risk management system, minimizing organizational inefficiencies.

The credit risk management process is implemented at the operational level in line with the business model that characterizes the internal organization of the Iccrea Group, specifically adopted in relation to the various categories of counterparties with which the Group operates.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

- *IDENTIFICATION OF RISKS*

Lending activities expose the Iccrea Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized in the financial statements.

Depending on the type of counterparty and the sector in which it operates, the Group’s operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of the Banking Group are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

- *MEASUREMENT AND ASSESSMENT OF RISKS*

For the purpose of calculating prudential requirements for credit risk, the Iccrea Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the Risk Management function and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control unites of the Group companies to agree methodological issues where appropriate.

- RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the following business lines:

- *Corporate*: the integration between the rating model and the front-end system permits extensive automation of the application assessment process and of the approval of operations (electronic loan decision), while at the same time permitting control to be maintained over the process, data quality and the use of delegated powers (tracking every decision/change) The entire segment is governed by comprehensive rules set out in the Credit Handbook;
- *Financial Institutions*: the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.;
- *Retail*: first-level controls are structured into a series of activities performed on an ongoing basis by the branch of the mutual bank proposing the transaction in its capacity as the manager of the credit relationship with the customer, with verification carried out at the territorial level.

Loan applications received via electronic channels are checked to ensure the accuracy of the information using the following controls:

- automated check of correspondence between tax ID number and other personal data of borrowers;
- automated check of ID documents to ensure they have not been stolen or lost, including through a direct connection with the website of the State Police;
- possible direct telephone contacts at the customer's home or workplace.

The operating limits defined in the lending process are automatically controlled by the IT system by assigning specific user codes enabled on the basis of the user's category.

Second level controls are performed by the Risk Management function (with the support of its local territorial units), which is independent of those that approve and manage loans, creating effective functional separation and ensuring immediate and objective analysis of situations that exhibit a significant increase in risk.

- MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the function.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

For the Corporate business line, operational monitoring involves:

- aggregate analysis and analysis of developments in the overall configuration and risk of the loan portfolio;
- specific analysis through the qualitative monitoring of individual positions. This approach is based on advanced management/operational monitoring of loans, which on the basis of mass analysis of developments supplemented with all other codified information available at the company level, seeks to construct, with the contribution of the various position managers and analysts involved, an overall picture of the situation of the borrower to provide support for the decisions regarding actions to take with regard to the customer concerned.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

For the Retail business line, monitoring of individual loans is conducted through the daily observation of past due positions as from the first unpaid instalment, using a classification based on the seriousness of the situation, which is managed using automated procedures in the IT system. The monitoring of credit risk also considers "connected" exposures, i.e. exposures that are not classified as positions in collection or in litigation but are connected with customers who have other positions in collection or in litigation. In addition, periodic monitoring has been introduced for all personal loans that, while not having unpaid instalments, have experienced repeated instances of resubmission of direct debit (RID/SDD) requests.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

For financial instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments), IFRS 9 introduced a model based on the concept of "expected loss" in replacement of the "incurred loss" concept employed by IAS 39.

Under the provisions of the new standard, the Iccrea Banking Group adopted a method for measuring expected losses on loans and securities subject to impairment based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
    - Stage 1: Financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
    - Stage 2: Financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
    - Stage 3: Financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- Application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- Calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- Inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;

- Staging and transfers of financial assets between the stages.

In accordance with the accounting rules, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.

The staging method of the Iccrea Banking Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the Company, overcollateralized exposures and any specific exposures of the individual company;
- the use of quantitative criteria based on internal rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of significant thresholds defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position. If there is no origination PD/rating and only the reporting date PD/rating is available, the method provides for the use of the practical expedient of the low credit risk exemption;
- the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions under observation (where a watchlist system is available), positions more than 30 days past due and forborne performing exposures;

With regard to "Financial Institutions" counterparties, a quantitative staging criterion has been defined, based on the use of an external rating model (RiskCalc of Moody's Analytics). It determines the allocation to stage 2 of positions that show an increase of a specified number of notches at the reporting date compared with the origination date rating.

The criterion is defined so as to allocate to stage 1 all exposures that regardless of their origination rating are rated equal to or below investment grade (BBB-) at the reporting date.

For credit exposures, forborne performing positions allocated to stage 2 remain in this class until, depending on the outcome of the forbearance measures, the conditions for the classification as forborne lapse, i.e. after 24 months, with consequent transfer to stage 1.

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group companies. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test. Securities issued by Group companies and the mutual banks are conventionally allocated to stage 1.

The approach adopted by the Group for FTA provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Securities exposures to Group entities are also automatically allocated to stage 1.

Group companies with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Main drivers of ECL and scenarios used in IFRS 9 modeling

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, the Iccrea Banking Group has developed a method, differentiated by individual company and using internal rating models where available, in order to obtain point-in-time, forward-looking and lifetime PDs.

For the loan portfolio, the drivers common to all of the approaches used to produce the PD to be used at FTA and subsequently regard:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the basis of a 1-year time horizon;
- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PIT PD and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

For the securities portfolio, the drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

Loss Given Default (LGD)

The Iccrea Banking Group estimates LGD by grouping exposures at a variable level of granularity (by product, counterparty type or overall company portfolio), observing, for each uniform cluster of exposures, the ratio of provisions associated with specific writedowns deform to the total gross non-performing exposure and applying a danger rate matrix *(to quantify the probability of transition of non-performing positions from one status to another)*.

For the securities portfolio, the same LGD is used for exposures in stage 1 and stage 2. More specifically, the LGD is equal to 45%.

Exposure At Default (EAD)

The Group differentiates the approach used to estimate EAD by loan portfolio on the basis of product type and stage of the exposure, as follows.

For "Amortizing" loans:

- the EAD for stage 1 is equal to the residual debt at the reporting date;
- the EAD for stage 2 is calculated by taking the residual debt drawn from the repayment plans for each exposure, then applying a transformation coefficient differentiated by residual life.

For "Revolving" loans and "Guarantee" exposures, the EAD for stage 1 and stage 2 is equal to the residual debt t the reporting date.

For "Margin" positions, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date with application of the regulatory CCF.

For the securities portfolio, the EAD associated with each securities issue is determined, where available, the gross value of the exposure (tel quel value) at the reporting date.

If this is not available, the carrying amount of the issue at the same date is used as proxy for the EAD.

For exposures in securities with amortization plans, the EAD for stage 1 is calculated as the residual debt at the reporting date, while the EAD for stage 2 is calculated on the basis of the residual debt drawn from the annual maturities over the residual life of the exposure, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure (the approach for amortizing exposures in stage 2).

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

The Group conditions risk parameters for future macroeconomic scenarios by estimating/updating, on an annual basis, models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of certain reference variables (default rates, amount of non-performing positions, etc.).

In order to obtain a PD that reflects future macroeconomic conditions, we estimate “satellite models” differentiated by counterparty type that “explain” the relationship linking default rates to a set of “explanatory” macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, the Group estimates a regression model that “explains” the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of “explanatory” macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, the Group associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

Finally, an additional conditioning for LGD was used to take account of the strategies for the sale of impaired assets by a number of Group companies (Iccrea BancaImpresa, Banca Sviluppo and BCC Factoring). Assessing elements in the sale plans concerning the probability of sale associated with each individual position in the sale group and the weight of the sale group as a proportion of the total impaired portfolio, the LGD metrics were adjusted assuming an adjustment to new levels of recovery on positions as a result of the disposal of impaired assets.

2.3 CREDIT RISK MITIGATION TECHNIQUES

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage doubtful positions, i.e. positions that have been judged unlikely to fully discharge their credit obligations to the Group;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the limits specified in the risk policies are breached.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

The Group’s strategies for managing impaired credit exposures are an integral part of the Group's overall long-term Strategic Plan. The objectives for managing NPEs are incorporated in an Operational Plan, consisting of all the activities that the Group undertakes to effectively implement the Strategic Plan in a manner consistent with applicable regulations and regulatory policy.

The operational planning of the objectives to be achieved for the NPE portfolio also enables the Group to monitor the ongoing effectiveness of its strategies and to identify appropriate corrective measures in the event of deviations from targets.

The Group has implemented appropriate governance and operational structures to enable the efficient and sustainable management of impaired loans.

More specifically:

- the analysis, recovery and restructuring of non-performing exposures is structured around units that are separate from the units responsible for origination and those that monitor performing positions. In cases where the establishment of an organizational unit is not possible, internal controls have been established to ensure adequate mitigation of potential conflicts of interest. As a corollary to the foregoing, the decision-making bodies of the units involved in managing non-performing exposures do not have decision-making authority for performing positions, while those of the units responsible for managing performing positions do not have authority to make decisions concerning non-performing positions;
- criteria for allocating exposures have been specified. They are used to trigger a change in responsibility for/ownership of exposures at the level of the units specialized in managing impaired exposures, in compliance with the principle of assigning a position to a single manager;
- the system also provides for activities, including self-assessment, to assess the suitability, in both quantitative and qualitative terms, of the structures and resources deployed to manage impaired financial assets.

The reduction in the impaired exposures envisaged in the 2018-2020 plan will be accomplished with the implementation of a series of strategies, namely:

- **maintaining positions on the balance sheet in the short term**, to be applied to positions in reversible financial difficulty that are expected to return to performing status with short-term measures;
- **maintaining positions on the balance sheet in the long term**, to be applied to positions in a more advanced, albeit reversible, state of financial difficulty that are expected to return to performing status with long-term measures, including the debt restructuring measures provided for by law;

- **Legal action**, to be applied to severely impaired positions for which legal action is taken to recover the claim, as the state of crisis appears deeply rooted and irreversible;
- **Active portfolio reduction**, to be applied to impaired positions that are not considered recoverable. They are slated for disposal as the state of crisis appears to be deeply rooted and irreversible and the sale of the positions can also contribute to reducing the operating costs of managing NPEs.

In summary, the main actions are as follows:

- attempts at amicable recovery of loans and assets in the case of lease transactions;
- restructuring of exposures, using the options available under bankruptcy law where appropriate. This activity is based on an analysis of the credibility and repayment capacity of the counterparty, as well as the overall sustainability of the plans. The Group's policies are aimed at taking early action to restructure loans as the positive effects of curing on exposures are all the more effective the earlier they are implemented. In this regard, the instruments for monitoring counterparties have been strengthened in order to detect the initial signs of deterioration and promptly guide subsequent action;
- settlements, predominantly on an out-of-court basis;
- legal and out-of-court recovery of loans and assets, with a focus on remarketing leased assets;
- disposal of non-strategic NPE portfolios, making significant use of GACS state guarantee scheme. In addition to the sale of portfolios, the strategies also provide for one-to-one transfers where the terms offered are attractive, taking account of prices prevailing in market transactions.

The actions to be pursued are selected following an assessment of the cost-effectiveness of the measures and is reflected in a clustering of customers/transactions structured so as to guide operations effectively and facilitate the monitoring of the activities performed.

3.2 WRITEOFFS

Extinguishing loans – apart from ordinary recovery actions – essentially involves writing off positions and the non-recourse assignment of exposures.

Writeoffs may involve part or all of a position and do represent waiver of the legal right to recover the loan.

Initiation of writeoff procedure presupposes that the NPE has residual balance for which no further recovery is envisaged for the following reasons:

- a final judgment has been issued that establishes the impossibility of recovery;
- all possible forced recovery procedures have failed;
- there is no expectation of recovery (also linked to the position's vintage) and the impossibility of taking further actions given that any guarantees are essentially worthless or the overall financial position and profitability of the obligors are such as to recommend terminating recovery actions;
- the start or continuation of legal action would be uneconomic.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

If a non-performing loan undergoes substantial contractual modifications that would entail derecognition under the provisions of IFRS 9, the new financial asset must be identified as "purchased or originated credit-impaired" (POCI) and therefore undergo a new assessment for the purposes of classification and measurement of the asset (SPPI test and business model). As it is not possible to exit POCI status, the asset must be recognized in accordance with the rules provided for this category until it is derecognized, even if the credit risk associated with the position improves.

For these exposures, IFRS 9 provides that:

- expected credit loss: the estimate must always be quantified as the lifetime expected loss for the financial instrument (it is not allowed to switch to 12-month expected loss even the event of a significant improvement in credit risk);
- interest recognized: it must be determined by applying the credit-adjusted effective interest rate, i.e. the rate that at the time of initial recognition exactly discounts all future estimated payments or receipts to the amortized cost of the asset, considering expected credit losses in the estimate.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTATIONS AND EXPOSURES SUBJECT TO FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "**objective**" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";
- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- Iccrea BancaImpresa has been notified by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as "forbearance" can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication "Guidance to banks on non-performing loans", the following list outlines general supervisory guidance for the categorization of viable forbearance:

a) a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
    - the institution can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
    - short-term measures are truly applied temporarily and the institution has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the

original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;

- the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if these regard separate contracts if the loan was refinanced in a previous forbearance solution).

b) a forbearance solution including long-term forbearance measures should only be considered viable where:

- the institution can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
- the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
- in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.4 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs*
	Impaired	Unimpaired			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	41	-	41	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	18,132,351	3,033	18,129,318	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**18,132,392**	**3,033**	**18,129,359**	**-**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	2,944,395	530	2,943,866	-
TOTAL B	**-**	**2,944,395**	**530**	**2,943,866**	**-**
TOTAL A+B	**-**	**21,076,788**	**3,563**	**21,073,225**	**-**

** Value to be reported for information purposes*

A.1.5 PRUDENTIAL CONSOLIDATION – ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs*
	Impaired	Unimpaired			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	1,484,655	X	947,373	537,282	36,642
- of which: forborne exposures	110,493	X	75,078	35,415	13,393
b) Unlikely to be repaid	1,024,385	X	348,716	675,669	8,078
- of which: forborne exposures	519,388	X	170,570	348,818	7,983
c) Impaired past due exposures	82,128	X	10,115	72,013	-
- of which: forborne exposures	2,626	X	631	1,996	-
d) Unimpaired past due exposures	X	187,774	6,535	181,240	-
- of which: forborne exposures	X	10,373	578	9,794	-
e) Other unimpaired assets	X	22,902,438	91,071	22,811,367	-
- of which: forborne exposures	X	159,741	7,724	152,018	-
TOTAL A	**2,591,168**	**23,090,212**	**1,403,810**	**24,277,570**	**44,720**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	6,086	X	897	5,189	-
b) Unimpaired	X	1,367,766	21,465	1,346,301	-
TOTAL B	**6,086**	**1,367,766**	**22,363**	**1,351,490**	**-**
TOTAL A+B	**2,597,254**	**24,457,978**	**1,426,173**	**25,629,059**	**44,720**

** Value to be reported for information purposes*

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.4 LARGE EXPOSURES

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of a bank's own funds. It is no longer possible to use favorable weightings for interbank exposures and new methods have been introduced for calculating exposures in the presence of investment schemes.

In the light of these changes, the following reports positions that, in exceeding 10% of own funds, represent large exposures.

The following represents the situation at June 30, 2018:

a) Number of positions: 45

b) Carrying amount: 40,797 million

c) Weighted amount: 1,365 million

The positions mainly regard transactions with bank counterparties in the mutual banking industry.

C. SECURITIZATIONS

QUALITATIVE DISCLOSURES

The Iccrea Banking Group operates in the securitization market as both an originator and investor. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

In all of these transactions, the Group companies have retained first losses by subscribing the junior notes. The senior notes have been placed with institutional investors (with the exception of the self-securitizations in which the originator subscribes all of the securities issued by the special purpose vehicle).

The following section details the main securitizations by originator.

- ICCREA BANCA IMPRESA S.P.A.

ICCREA SME CART 2016 (AGRI#9)

On August 10, 2016, the Agri#9 securitization was finalized, with the assignment of future receivables in an initial portfolio of €1,364,760,850.25 of performing lease contracts originated by Iccrea BancaImpresa and the issue of the associated securities by ICCREA SME CART 2016 S.r.l (the "special purpose entity"), with the concomitant payment of the assignment price of €1,364,622,200.00, including €617,460,000.00 of the Class D (junior) notes subscribed by Iccrea BancaImpresa.

The operation, in line with those carried out in 2007, 2009 and 2011 through the special-purpose entities Agricart 4 Finance Srl and Iccrea Sme Cart Srl (Agri#4, Agri#6 and Agri#7), was carried out to acquire new funding for lease financing and loans to small and medium-sized enterprises, or projects sponsored by mid-caps, thereby diversifying funding sources and at the same time obtaining new funding (with an expected average life of about 4 years) with an attractive maturity and cost, especially in view of current market conditions. The transaction did not pursue capital objectives, as under the provisions of the relevant supervisory regulations the characteristics of the transaction do not permit any reduction in capital requirements for the assignor bank.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca as Sole Arrange.

SECURITIES

As part of the transaction, on August 10, 2016, ABSs amounting to €1,374,160,000.00 were issued by the special purpose entity. The Class A1, A2 and B notes are listed on the Irish Stock Exchange. The issue has the following characteristics:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A1	Aa2/AAA	202.3	14.7%	3M Euribor + 0.10%	1/06/2019
A2	Aa2/AA (low)	480	35%	3M Euribor + 0.85%	1/06/2021
B	A1/A	65	4.7%	3M Euribor + 1.15%	1/12/2021
C	NR – LOW MEZZANINE	9.4	0.7%	3M Euribor + 1.20%	1/12/2018
D	NR - JUNIOR	617.5	44.9%	Residual remuneration	1/03/2022

The Class A1 and A2 are ranked pari passu for payment of interest but are amortized on a different schedule except in the case of post enforcement, in which case amortization will also be pari passu and have priority with respect to all other notes.

Redemption of the Class A1 notes will begin at the end of the two-year revolving period. Accordingly, the first redemption is scheduled for December 2018.

Redemption of the Class C notes will begin in December 2018 only if and to the extent that the special purpose entity has sufficient funds, exclusively for interest, to use for that purpose after having paid all costs in the interest payment ranking that have priority over redemption.

ASSIGNED PORTFOLIO

The contract assigning the portfolio of performing leasing receivables to the special purpose entity was executed on July 20, 2016. The portfolio also includes the receivables, which meet the requirements for assignment in the new operation, that were repurchased by the Bank as part of the early extinguishment of the previous securitizations. The portfolio was selected on the basis of criteria agreed with the Arranger and the investors, in an amount essentially equal to the value of the Class A1, A2, B and D securities issued, broken down into four pools. At the assignment date, they had the following composition:

Pool	Amount (€)	Amount (%)
1) – Industrial vehicles	85,720,330.26	6.28
2) – Equipment	329,175,688.94	24.12
3) – Real estate	925,077,135.78	67.78
4) – Auto	24,787,695.27	1.82
Total	**1,364,760,850.25**	**100**

Revolving operations will be conducted on a quarterly basis and end in September 2018, providing for 8 subsequent assignments of portfolios. The first revolving operation was carried out in December 2016. The selection criteria for the subsequent portfolios are essentially analogous to those used for the initial portfolio.

In line with the most recent securitizations originated by Iccrea BancaImpresa and with recent market trends, the value of the bargain purchase option was not assigned.

REPURCHASE OPTION

The assignment contract gives Iccrea BancaImpresa an option for the repurchase of the entire portfolio, which can be exercised on a quarterly basis as from the interest payment date following that on which the Class A and B notes are redeemed in full, as long as the purchase price of the receivables, determined in accordance with the procedures set out in the assignment contract, enables full redemption of the outstanding securities and priority payment of all expenses ranking prior to the latter and Iccrea BancaImpresa has obtained any necessary

authorizations required by law or regulations governing the repurchase option, in conformity with the provisions of Article 58 of the Banking Act. In concomitance with the exercise of the repurchase option, the special purpose entity will carry out the early redemption of the securities.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

SERVICING

Servicing activities are performed by Iccrea BancaImpresa, which carries out monitoring, collection and recovery activities using the same procedures adopted for the company portfolio. The contract provides for the termination of servicer activities by Iccrea BancaImpresa and the transfer of the Servicer role to the Back-Up Servicer where Iccrea BancaImpresa:

- is in material breach of the provisions of the Servicing agreement; or
- becomes insolvent; or
- is not, or ceases to be, an entity resident in or with its registered office in a country of the European Union, or that status should apply to the Parent Company of the banking group to which Iccrea BancaImpresa belongs.

The role of Back-Up Servicer has been entrusted to Iccrea Banca under the provision of the Back-Up Servicing Agreement signed at the start of the securitization.

CREDIT ENHANCEMENT

Redemption of the notes is secured by the cash flow expected from the assigned portfolio. The operation also provides for the excess spread to cover first losses and for a Debt Service Reserve, which will be made available to the special purpose entity on a quarterly basis. That reserve will be equal to 2% of the rated notes outstanding on a quarter to quarter basis, with a floor of €3,000,000. Until amortization of the notes begins, the reserve will therefore be equal to €14,948,745.04 and was entirely financed at the Issue Date – in the amount of €9,400,000 – with the subscription of the Class C notes by Iccrea BancaImpresa and with collections of interest – in the amount of the remaining €5,548,745.04 – generated on the assigned portfolio for the lease instalment for August 2016.

- BANCA SVILUPPO S.P.A.

Banca Sviluppo has 7 outstanding “own” securitizations (2 securitizations and 5 self-securitizations) of performing loans, acquired from Banca Romagna Cooperativa (hereinafter BRC) and Banca Credito Cooperativo Interprovinciale Veneto (hereinafter Crediveneto). The transactions are multi-originator securitizations with the involvement of multiple mutual banks, structured as follows:

- assignment without recourse “en bloc” by the originator of a loan portfolio;
- acquisition of the loans by the assignor/issuer, special purpose vehicle and issue by the latter of notes in tranches with different repayment characteristics in order to raise funds;
- subscription of the Senior and Mezzanine notes by intermediaries acting as placement agents;
- subscription by the mutual banks (assignors) of the Class C – Junior notes.

The Class notes were broken down into various series, each proportionate to the amount of the loans assigned by the individual banks, which then subscribed the notes in full.

Although the individual operations have the same structure, the parts of each assignor mutual bank remain separate (segregated asset pools). This means that despite the unitary nature of the operation, the cash flows are separate. The transaction would be managed as a single operation only in extraordinary circumstances (i.e. default events).

The following section details the individual transactions.

“CREDITI IN BONIS 2006” SECURITIZATION – CREDICO FINANCE 6 SRL

On June 1, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 6 Srl (SPV) with a nominal value of €13,784,187.

FEATURES OF THE OPERATION

The transaction involved Societè Générale as arranger and Iccrea Banca SpA as co-arranger.

SECURITIES

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody’s/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	563.9	94,%	3-month Euribor + 0.16%	2038
B	Aa2/BBB-	24	4%	3-month Euribor + 0.46%	2038
C	NR - JUNIOR	11.8	2%	Residual remuneration	2038

The Class C notes were subdivided into 25 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full. Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €297,187.

ASSIGNED PORTFOLIO

The purchase price for the portfolio of assigned loans was equal to €13,784,187, corresponding to the carrying amount of the loans at the assignment date. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

In this securitization, each assignor mutual bank acts as servicer. Although no longer owner of the assigned loans, as they were assigned without recourse, each mutual bank handles the ordinary management (collection of payments, issuing receipts of payment, certification of interest, etc.) and extraordinary management (management of irregularities, dunning in the event of payment arrears, management of substandard positions and bad debts) in the name and on behalf of the SPV as if the loan portfolio had never been transferred.

CREDIT ENHANCEMENT

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Société Générale in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. Following the downgrade of Italian government securities, the securities pledged to secure the line of liquidity were no longer considered sufficient. This prompted the SPV to request, in 2011, the establishment of a cash reserve for the line of liquidity, amending the contract documentation appropriately.

The cash reserve amounts to €546 thousand and is represented in the financial statements as a reduction in the exposure to the SPV. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.20 bps.

"CREDITI IN BONIS 2006" SECURITIZATION– CREDICO FINANCE 7 SRL

On December 19, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 7 Srl (SPV) with a nominal value of €37,318,807.

FEATURES OF THE OPERATION

The transaction involved Societè Générale as arranger and Iccrea Banca SpA as co-arranger.

SECURITIES

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	449.2	94%	3-month Euribor + 0.16%	31/03/2039
B	Aa2/BBB-	19.1	4%	3-month Euribor + 0.55%	31/03/2039
C	NR - JUNIOR	9.5	2%	Residual remuneration	31/03/2039

The Class C notes were subdivided into 16 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full.

Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €746,807.

ASSIGNED PORTFOLIO

The purchase price for the portfolio of assigned loans was equal to €37,318,807, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

CREDIT ENHANCEMENT

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Royal Bank of Scotland in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers: each assignor made the government securities CCT 1/11/2012 IT0003993158, in the amount of €1,062,000, available to the SPV in order to provide a form of liquidity support, replacing the support already provided with the line of liquidity (this guarantee can therefore only be enforced if it is not possible to use the liquidity and can only be activated up to the entire amount of the liquidity line). This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization.

In 2011, following the downgrade of Italy by Standard&Poor's and Moody's, the Italian government securities (CCTs) pledged to secure the line of liquidity through the establishment of a limited-recourse loan no longer met the criteria of the rating agencies and were replaced with a cash reserve created by fully drawing down the line of liquidity in the amount of €1,445 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.20 bps.

"CREDITI IN BONIS 2011" SECURITIZATION – CREDICO FINANCE 9 SRL

On June 30, 2011, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €35,471,478.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca SpA as arranger.

SECURITIES

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	554.4	87%	3-month Euribor + 0.30%	15/11/2050
B	NR - JUNIOR	82.8	13%	Residual remuneration	15/11/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

ASSIGNED PORTFOLIO

The purchase price for the portfolio of assigned loans was equal to €35,471,478, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 18 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €4,571,478.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

CREDIT ENHANCEMENT

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. The enduring recession and recent market turbulence, which among other things have led to a downgrade of the Italian State, made it advisable to review the collateral forms of guarantee provided for securitizations initiated by the Bank in previous years. In this context, in 2011 a number of amendments were made to the transaction contracts: in particular, the liquidity contract and the limited-recourse loan contract were amended to enable substitution of the government securities where necessary. As a result of these changes, the Bank, subject to notification of the SPV, replaced the limited-recourse loan in government securities with a cash reserve, established by the SPV by fully drawing down the liquidity line. The cash reserve amounts to €1,533 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

"CREDITI IN BONIS 2012" SECURITIZATION – CREDICO FINANCE 10 SRL

On April 23, 2012, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €36,668,028. At the same time, Crediveneto assigned performing residential mortgage loans with a nominal value of €34,275,649.58, for a total of €70,943,677.27.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca SpA as arranger.

SECURITIES

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AA	1,333.2	84.25%	3-month Euribor + 0.30%	31/10/2050
B	NR - JUNIOR	249.2	15.75%	Residual remuneration	31/10/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

ASSIGNED PORTFOLIO

he purchase price for the portfolio of assigned loans was equal to €70,943,677, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 30 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by BRC was €5,769,000, while Crediveneto subscribed €5,376,000.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

CREDIT ENHANCEMENT

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €3,562 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

"CREDITI IN BONIS 2013" SECURITIZATION– CREDICO FINANCE 14 SRL

On October 17, 2013, BRC assigned without recourse performing residential mortgage loans to Credico Finance Srl (SPV) with a nominal value of €22,831,016.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca SpA as arranger.

SECURITIES

The Senior notes have been rated as follows:

Class	Rating (S&P/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	BBB-/A high	219.4	72%	3-month Euribor + 0.20%	31/07/2052
B	NR - JUNIOR	85.4	28%	Residual remuneration	31/07/2052

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

ASSIGNED PORTFOLIO

The purchase price for the portfolio of assigned loans was equal to €22,831,016, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 10 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €6,432,000.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

CREDIT ENHANCEMENT

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €656 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

"CREDITI IN BONIS 2009" SECURITIZATION– CREDICO FINANCE 8 SRL

On February 23, 2009, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 8 Srl (SPV) with a nominal value of €39,835,432.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca SpA as arranger.

SECURITIES

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	369.25	90.5%	3-month Euribor + 0.30%	31/07/2046
B	NR - JUNIOR	38.77	9.5%	Residual remuneration	31/07/2046

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

ASSIGNED PORTFOLIO

The purchase price for the portfolio of assigned loans was equal to €39,835,432, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 14 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the bank was €3,785,432.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.30% on the outstanding and 6% on collections on defaulted positions.

CREDIT ENHANCEMENT

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €1,255 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

THIRD-PARTY SECURITIZATIONS

As at June 30, 2018, the Group had subscribed unrated 10-year senior notes issued by the "Lucrezia Securitisation" vehicle for an amount of €13,075 million.

The assets underlying the securitization are represented by impaired receivables:

- of BCC Irpinia and BCC Padovana, in the amount of €31.787 million and €178.019 million, respectively;
- of BCC Crediveneto, in the amount of €76.62 million;
- of BCC Teramo, for €40.22 million.

The Group also granted the vehicle a loan of €108 million to purchase the impaired receivables, undertaking to subscribe all of the corresponding notes, as part of the support measures to resolve the mutual bank crisis.

The following table reports the details of the three categories of securities:

Securities	ISIN	Type of note	Assets	Assignor bank	Assigned portfolio (millions of euros)	Carrying amount (millions of euros)
LUCREZIA SEC,16/26 TV SEN.	IT0005216392	Senior	NPL	BCC Irpinia/BCC Padovana	209.81	5.51
LUCREZIA SEC,17/27 TV SEN.	IT0005240749	Senior	NPL	BCC Crediveneto	76.62	2.34
LUCREZIA SEC,17/27 TV SEN.	IT0005316846	Senior	NPL	BCC di Teramo	40.22	1.05
TOTAL					**326.25**	**8.90**

The notes have been classified by the Bank under item 40b – Financial assets measured at amortized cost – b) Loans to customers.

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One).

At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS market;
- acting as market maker and direct participant (to handle orders from mutual banks) on the multilateral trading systems Hi-MTF and EuroTLX;
- participating in the primary market for equities and bonds and in auctions and subscriptions of government securities;
- transacting repurchase agreements on OYC markets and regulated markets, as well as derivatives on regulated markets;
- structuring, creation and management of financial derivatives on unregulated markets, mainly to meet the specific needs of Bank customers;
- providing the mutual banks will investment services, trading on own account, execution on customer account, order reception and transmission, trading on third-party account and placement of financial instruments issued by the Bank or third parties;
- providing the mutual banks access to the standing facilities of the ECB;
- managing liquidity and the short-term interest rate risk profile associated with interbank operations, foreign exchange markets and precious metal markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the framework of delegated operating powers, specific operating limits have been set for trading positions that generate exposures to market risks. These are mainly assumed through domestic government securities and transactions in futures contracts traded on official markets with clearing and guarantee funds, as well as derivatives on interest rates, mainly plain vanilla instruments to support the hedging needs of the mutual banks.

Operations in interest rate derivatives also include interest rate swaps with institutional counterparties to support the vehicle companies in transforming the interest flows generated by mutual bank securitizations. The overall

exposure to interest rate risk is concentrated in euro-denominated transactions and, accordingly, correlation effects between developments in the yield curves in different currency areas are minimal.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

Governance and organizational model

The market risk management and governance framework of the Iccrea Banking Group adopts a "centralized" approach. The Parent Company is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group's market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

Risk management processes

IDENTIFICATION OF RISKS

- Operations in financial market, especially positions in the trading book, expose the Iccrea Banking Group to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:
- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;

- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

RISK MEASUREMENT AND ASSESSMENT

Risk Management, acting through the Market Risks unit, is the main actor within the Group in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

The Group uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, the Group uses internal models for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- Probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- Deterministic metrics:
  - Level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - Analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - Stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - Loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

To calculate VaR, the Iccrea Banking Group uses the so-called Delta Gamma parametric approach (confidence level of 99% and holding period of 1 day), in which the risk factors and the financial instruments in the portfolio have a normal distribution. Measuring VaR therefore involves calculating (i) the sensitivity of the individual positions to changes in market parameters, summarized in the so-called VaRMap; and (ii) the variance/covariance matric of the market parameters. The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 *(sensitivity to inflation)*: the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations..

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

- Risk prevention and attenuation

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk

management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations).

The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effectiveness management of market risk is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

- Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Group's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

- These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:
- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;

- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Parent Company's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

- Risk management and mitigation

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with a 99% confidence level has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR of the trading book has been €0.37 million, with a minimum of €0.12 million and a maximum of €0.89 million (registered on July 17, 2017), which is below the overall risk limit for that specific category of operations, which was €2.0 million for the head of Finance. At June 29, 2018 the VaR was €0.27 million.

DAILY VAR ON TRADING BOOK	NOTIONAL	VAR	
	29/06/2018	LIMIT	RISK PROFILE
Iccrea Banca	14.641	2.00	0.27

Figures in millions of euros at June 29, 2018

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

Governance and organizational model

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca is the interface between the individual mutual banks and Group companies and domestic and international money and financial markets. More specifically, the Bank:

- performs treasury activities, managing the liquidity transferred to it by the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS market;
- ensures that the financial requirements of Group companies are met, raising funds within the mutual banking system and on financial markets;
- ensures, with the support of Risk Management, the monitoring and management of interest rate risk at the individual and consolidated levels, as well as compliance with the limits set during the strategic planning process.

The management of interest rate risk on the banking book is performed by the **Asset & Liability Management** (ALM) function, performed by the Finance unit of the Parent Company, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit of the Parent Company. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations;
- **Money Market operations**, which are performed by the Treasury and Foreign Exchange unit of the Parent Company. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations.

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to Iccrea Banca using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

Risk management processes

- Identification of risks

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: reprising risk, yield curve risk, basis risk and option risk.

- Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach**: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- **Economic value approach**: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- **Repricing Gap:** this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII Sensitivity:** the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

- The metrics adopted in the economic value approach are:
- **Duration Gap**: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;

- **EVE Sensitivity**: the change in the expected value of the banking book is calculated using a "full revaluation" approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests are conducted for the two metrics:

- **EVE Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NII Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic "going concern" approach with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book (IRRBB, interest rate risk in the banking book and CSRBB, credit spread risk in the banking book).

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally.

To measure the exposure to repricing risk, the system calls for assessing the impact on economic value and net interest income of parallel shocks to the yield curve, based on various degrees of severity (e.g. changes of +/- 200 bps in the curve).

The exposure to yield curve risk is estimated by measuring the risk of a reduction in the profitability or economic value of the banking book assuming non-parallel shocks to the yield curve (e.g. steepening and flattening shocks).

In order to measure the exposure to basis risk, the system calls for the definition of ad hoc scenarios (the baseline and adverse scenarios), which widen and narrow the basis spreads between the main indexing bases for variable-rate items in the banking book and the risk-free rate adopted by the ALM center (3-month Euribor). The level of the shocks (opening and closure of the basis spreads) to be applied to the main indexing rates is determined on the basis of the empirical distribution of past spreads at the 1st and 99th percentiles with a horizon of 1 year (baseline scenario) and 6 years (stress scenario).

As regards CSRBB, stress tests are performed to quantify the impact on net interest income of possible changes in the premiums demanded by the market or the Bank for credit risk and other market risks, considering the impact on the "margin", i.e. the spread between the effective interest rate and the reference rate.

In addition, historical scenarios defined internally on the basis of prudential assessments and historical analyses of observed rate variations are also used.

- Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to it in its capacity of Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Risk limits and additional metrics are also established to monitor the exposure of the individual business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the risk management policy.

- The controls established to manage interest rate risk on the banking book break down as follows:
- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

- Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.[6] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

[6] *See "Interest Rate Risk in the Banking Book Policy (IRRBB Policy)".*

- Risk management and mitigation

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of Iccrea Banca, which handles the centralized management of the exposure to interest rate risk by selecting market parameters (e.g. 3-month Euribor rather than 6-month Euribor) that appropriately reflect the actual risk associated with the products placed by the Group.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

SCENARIO	IMPACT ON ECONOMIC VALUE		IMPACT ON NET INTEREST INCOME AT 12 MONTHS	
	- 100 bp	+100 bp	- 100 bp	+100 bp
	+30.3	-17.2	-13.4	+14.2

Figures in millions of euros at June 30, 2018

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

B. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies

C. HEDGING OF EXCHANGE RATE RISK

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduate by the importance of the currencies.

1.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY

Liquidity risk for the Group is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (funding liquidity risk);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (market liquidity risk).

The framework for governing and managing liquidity risk within the Iccrea Banking Group is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

That framework is based on the centralization of those activities. The Parent Company is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis by the Parent Company, which performs the following functions:
  - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
  - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
  - funding the securities portfolio at the Group level;
  - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
  - managing open market operations with the ECB.

- the management of structural liquidity is centralized with the Parent Company, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
  - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..);
  - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- **structural liquidity** - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operating maturity ladder is constructed in accordance with the rules issued by the Bank of Italy as part of its periodic monitoring and it comprises a time horizon of up to 12 months. The Group's liquidity profile is represented in five main sections:

- transactions with institutional counterparties, which includes positions with the central bank, market counterparties and the interbank market, assuming no roll over of maturing positions;
- transactions with Corporate/Large Corporate customers;
- treasury forecasts;
- securities and finance operations;
- counterbalancing capacity.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);

- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder used by the Group in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model adopted by the Group and the subsidiaries. Liquidity risk is monitored by the Risk Management unit of the Parent Company. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of the Parent Company, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

STRESS TEST FRAMEWORK

The Group liquidity position is monitored in the normal course of business and under stress conditions. For the latter, the Group has defined a stress test framework on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness. Accordingly, the objectives of the stress testing are:

- to verify the Group's capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity

reserves to enable the Group to discharge planned obligations over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and, consequently, the Iccrea Banking Group;
- **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Iccrea Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- **stress scenarios generated by a combination of specific and systemic events**, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains. For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset at the Group level.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY

CURRENCY 242 - EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	**2,970,557**	**1,167,821**	**301,562**	**1,100,992**	**2,465,261**	**7,010,008**	**2,711,203**	**18,173,284**	**6,611,214**	**447,412**
A.1 Government securities	3	-	453	65	14,452	4,293,033	60,263	2,968,405	3,388,848	-
A.2 Other debt securities	1,278	7	-	507	1,542	21,450	21,535	290,172	183,201	700
A.3 Units in collective investment undertakings	506,667	-	-	-	-	-	-	-	-	-
A.4 Loans	2,462,609	1,167,814	301,109	1,100,420	2,449,267	2,695,525	2,629,405	14,914,707	3,039,165	446,712
- banks	1,135,247	1,077,518	269,590	650,156	1,259,723	1,485,236	1,636,497	9,908,264	12,355	446,097
- customers	1,327,362	90,296	31,519	450,264	1,189,544	1,210,289	992,908	5,006,443	3,026,810	615
On-balance-sheet liabilities	**5,577,890**	**8,329,963**	**74,488**	**448,853**	**2,050,155**	**3,122,146**	**2,453,343**	**19,499,850**	**405,755**	**-**
B.1 Deposits and current accounts	5,083,104	3,391	6,902	33,311	153,749	293,988	281,637	1,067,966	-	-
- banks	3,508,382	-	4,529	26,122	134,495	262,718	246,615	1,046,400	-	-
- customers	1,574,722	3,391	2,373	7,189	19,254	31,270	35,022	21,566	-	-
B.2 Debt securities	2,387	5,775	10,540	8,346	182,003	130,218	197,451	4,167,222	220,230	-
B.3 Other liabilities	492,399	8,320,797	57,046	407,196	1,714,403	2,697,940	1,974,255	14,264,662	185,525	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	5,214,651	2,669,864	1,106,406	1,191,992	327,971	129,428	10,287	62,827	-
- short positions	-	5,188,750	2,457,768	1,106,630	1,180,159	405,686	339,158	75,979	74,553	-
C.2 Financial derivatives without exchange of principal										
- long positions	377,517	733	34	67	591	3,570	12,282	-	-	-
- short positions	406,473	316	70	-	8,370	9,819	13,603	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	-	-	-	-	-	1,357,752	-	-	-
- short positions	-	-	-	-	-	-	56,527	1,301,225	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	133,254	28,000	-	2	652	2,390	2,969	103,235	249,350	-
- short positions	501,931	35,122	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-

C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

CURRENCY 999 – OTHER

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	**23,822**	**13,150**	**4,014**	**19,926**	**12,089**	**11,743**	**14,570**	**90,248**	**27,673**	**1,100**
A.1 Government securities	-	39	61	135	344	3,579	8,371	68,818	11,793	-
A.2 Other debt securities	-	-	-	722	1,193	200	687	12,184	13,425	1,100
A.3 Units in collective investment undertakings	142	-	-	-	-	-	-	-	-	-
A.4 Loans	23,680	13,111	3,953	19,069	10,552	7,964	5,512	9,246	2,455	-
- banks	20,515	13,111	3,953	19,069	10,168	7,253	717	2,590	-	-
- customers	3,165	-	-	-	384	711	4,795	6,656	2,455	-
On-balance-sheet liabilities	**126,384**	**42,333**	**15,639**	**101,050**	**17,116**	**7,007**	**13,669**	**65,063**	**782**	**-**
B.1 Deposits and current accounts	126,384	42,333	15,639	94,868	14,958	6,448	2,589	-	-	-
- banks	125,536	42,333	15,639	94,868	14,958	6,448	2,589	-	-	-
- customers	848	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	325	559	11,065	64,557	-	-
B.3 Other liabilities	-	-	-	6,182	1,833	-	15	506	782	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	16,534,544	3,371,437	2,045,432	4,405,563	1,194,901	526,463	75,107	3,885	-
- short positions	-	16,557,660	3,586,396	2,044,925	4,404,252	1,109,996	299,720	10,507	3,298	-
C.2 Financial derivatives without exchange of principal										
- long positions	2,739	-	-	-	-	-	25	-	-	-
- short positions	3,072	-	-	-	61	14	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	9,501	-	-	-	-	-	-	-	-
- short positions	-	9,501	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	2,307	-	-	-	-	-	-	-	-
- short positions	-	2,307	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risks

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of operational risk

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

In view of the operations that characterize the Iccrea Group, it is exposed to operational risks across the entire organization.

Within the regulatory framework, the deregulation and the globalization of financial services, together with the progressive refinement of the financial technology supporting transactions, are making the Group's activities, and thus the associated operational risk engendered, increasingly complex.[7] In the absence of appropriate controls, the growing use of highly automated technology under way in the Group can transform the risk of manual errors and data processing errors into system malfunctions, given the increasing recourse to integrated IT infrastructure and applications.

In addition, the growing use of electronic money and e-commerce generates other potential risks (or example, internal and external fraud, system security, customer data processing and IT risks) whose comprehensive mastery and mitigation represents a strategic and enabling factor in the development of the Group's business.

In addition, the presence of banks and financial companies in the Group, delivering services on a mass scale (the mutual banking system) to the public makes it necessary to constantly maintain adequate internal controls and backup systems, with the increasing risk of rules violations, incurring penalties, etc.

The various types of operational risk to which the Iccrea Group is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the countless national and international regulations to which the Group is subject.

A. GOVERNANCE AND ORGANIZATIONAL MODEL

The organizational model adopted by the Iccrea Group to supervise and manage operational risk is structured as follows:

- an Operational & IT Risk Management unit was established at the Parent Company, reporting to the Risk Management department which handles operational and IT risks at the Group level, acting as a specialized hub responsible for providing guidance, coordination and technical support to the various Risk Management units of the companies in the Group;
- the Risk Management units of the banking/financial subsidiaries report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

With regard current governance arrangements, the Risk Committee of the Board of Directors provides support to that body, engaging in strategic supervision of risks and the internal control system, including the frameworks for the management of operational risk and IT risk.

In particular, the Risk Committee:

[7] See BIS, "Sound practices for the management and supervision of operational risk", February 2013;

- supports activities to verify the correct implementation of Group strategies, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and acquiring the necessary documentation for the evaluation of management and mitigation actions for the risks involved;
- conducts a preliminary review of the annual activity programs and reports of the Operational & IT Risk Management unit submitted to the Board of Directors;
- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

B. OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the "Risk Management Process", the framework is structured into the following phases:

- **Identification of risks (knowledge)**: a set of processes, methods and tools to identify operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- **Evaluation/measurement of identified risks (awareness)**: processes, methods and tools for assessing/measuring Group operational risks.
- **Risk prevention and mitigation (strategy)**: processes, methods and tools for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- **Monitoring and reporting (tracking and control)**: processes, methods and tools to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- **Risk management and mitigation (reaction and proactivity)**: processes, methods and tools to support the management of developments in operational risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk, in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

- IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Banking Group uses the Basic Indicator Approach (BIA), which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

Following the evolutionary revision of the framework of second-level control activities with operational risks carried out in 2017, which sought to better identify the causes and the tools used to handle them in which a "risk-factor-driven" approach complemented the assessment of economic impact, specific measures were taken (a pilot

assessment) to verify the appropriateness of the conceptual structure as well as the feasibility of implementing the new approach. The results of these measures were used to refine the process and limit the impacts on the operations of the units involved without compromising the overall quality of the effort. Moreover, with regard to arrangements for IT risks, assessment activities were initiated for specific areas (e.g. internet payment services).

With regard to the loss data collection process, during the first half of 2018, the process of refining the process continued. In particular, specific workshops were conducted with the Group's main business functions to illustrate the model for identifying and recording operating losses in order to ensure more efficient identification of operational risks for both management and supervisory purposes.

- RISK PREVENTION AND ATTENUATION

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address this risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company and the individual subsidiaries. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to compliance (an indicator specified for the entire scope of application of the RAF);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to money-laundering risk (an indicator specified for the entire scope of application of the RAF);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF).

- RISK MANAGEMENT AND MITIGATION

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

- MONITORING AND REPORTING

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board of Directors, senior management, operating units).

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is "gross income".

In particular, the capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €92,577 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2017	T	611,575
- at December 31, 2016	T-1	599,447
- at December 31, 2015	T-2	640,517
Relevant indicator average		**617,180**
Regulatory coefficient		**15%**
Capital requirement		**92,577**

PART F - Information on consolidated capital

SECTION 1 – CONSOLIDATED CAPITAL

A. QUALITATIVE DISCLOSURES

Consolidated capital is managed by centralized units of Iccrea Banca, through the definition of a set of internal policies and processes that ensure dynamic equilibrium and appropriate consistency between the Group's overall capital resources, the range of risks the Group has assumed or intends to assume, and the targets for growth in size and profitability as specified in the strategic planning process.

With a view to achieving sustainable and balanced growth, the Iccrea Banking Group continues to pursue capital adequacy through careful management of both regulatory requirements (First Pillar) and operational constraints (Second Pillar – ICAAP). In particular, the Group's compliance with capital adequacy requirements is ensured:

- for the First Pillar, through the management and monitoring of regulatory capital, so as to ensure compliance with the minimum statutory capitalization limits, so as to be able to handle with the risks typical of the banking business;
- for the Second Pillar, through a process that controls current and prospective capital adequacy, which in addition to First Pillar risks also considers other material risks that affect or could affect the Group's operations, in order to determine an adequate level of internal capital in relation to the overall risk exposure.

Accordingly, management of financial soundness at the consolidated level is structured in a dynamic process, which is managed on both an ongoing basis in accordance with the corporate objectives set out in the strategic planning process (annual budget, three-year business plan) and on a non-recurring basis in conjunction with extraordinary transactions (acquisitions, mergers, asset disposals) that modify the composition or scope of the Group's operations.

B. QUANTITATIVE DISCLOSURES

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

The table below reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Banking Group" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the "Banking Group", are measured using the equity method here;
- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.

	Prudential consolidation	Insurance undertakings	Other entities	Consolidation eliminations and adjustments	Total
1. Share capital	2,088,491	-	36,178	(921,006)	1,203,663
2. Share premium reserve	11,844	-	4,950	(11,408)	5,386
3. Reserves	494,543	-	5,351	(162,822)	337,071
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(24,724)	-	-	-	(24,724)
6. Valuation reserves:	-	-	-	-	-
- Equity securities designated as at fair value through other comprehensive income	7,915	-	-	-	7,915
- Hedges of equity securities designated as at fair value through other comprehensive income		-	-	-	-
- Financial assets measured at fair value through other comprehensive income	(22,150)	-	-	-	(22,150)
- Property and equipment		-	-	-	-
- Intangible assets		-	-	-	-
- Hedging of investments in foreign operations		-	-	-	-
- Cash flow hedges	(850)	-	-	-	(850)
- Hedging instruments [undesignated elements]		-	-	-	-
- Foreign exchange differences		-	-	-	-
- Non-current assets and disposal groups held for sale		-	-	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)		-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(2,855)	-	(188)	-	(3,044)
- Share of valuation reserves of equity investments accounted for using equity method	6,097	-	-	-	6,097
- Special revaluation laws	52,334	-	-	-	52,334
7. Net profit (loss) for the period (+/-)pertaining to shareholders of the Parent Company and non-controlling interests	(22,756)	-	479	(47,826)	(70,103)
Shareholders' equity	**2,587,893**	**-**	**46,768**	**(1,143,063)**	**1,491,599**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Prudential consolidation		Insurance undertakings		Other entities		Consolidation eliminations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	41	(6,357)	-	-	-	-	-	-	41	(6,357)
2. Equity securities	-	(7,917)	-	-	-	-	-	-	-	(7,917)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 30/6/2018	**41**	**(14,274)**	**-**	**-**	**-**	**-**	**-**	**-**	**41**	**(14,274)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

2.1 SCOPE OF APPLICATION

As from January 1, 2014, the new regulatory framework for banks and investment firms is composed of:

- Regulation (EU) no. 575/2013 ("Capital Requirement Regulation"): the regulation, which took immediate effect in the EU Member States, establishes new rules concerning own funds, minimum capital requirements, counterparty risk, liquidity risk, leverage and disclosure;
- Directive no. 2013/36/EU ("Capital Requirement Directive"): the directive has been transposed into national law and contains provisions for determining capital reserves, the prudential control process, corporate governance rules and remuneration, and administrative penalties.

In implementing the Directive, the Bank of Italy issued Circular no. 285/2013 "Provisions for the prudential supervision of banks", which is divided into three parts:

- the first part contains secondary provisions for which the Bank of Italy is responsible that are necessary for the transposition of Directive 2013/36/EU;
- the second part contains measures implementing Regulation (EU) no. 575/2013, specifically through the exercise of national discretion;
- the third part sets out provisions that, while not harmonized at the European level, are needed to align the Italian supervisory system with the best practices and requirements established by international bodies, include the Core Principles of the Basel Committee.

The primary changes introduced with the new regulatory framework are:

- with regard to the first pillar, steps have been taken to improve the quality of regulatory capital and raise the minimum capital requirements. More specifically, with regard to capital quality, the new framework defines the concept of Common Equity Tier 1, which essentially corresponds to ordinary shares and earnings reserves. Furthermore, additional reserves were introduced, relating to capital conservation, countercyclical buffers and buffers for systematically important banks (G-SII buffer or O-SII buffer). A limit was placed on leverage (including off-balance-sheet exposures) to restrict the growth in system-wide leverage. Finally, Basel III contains new requirements and systems for monitoring liquidity risk centering around a short-term liquidity requirement (Liquidity Coverage Ratio – LCR) and a longer-term structural stability rule (Net Stable Funding Ratio – NSFR));
- with regard to the second pillar, emphasis was placed on the importance of the following in terms of the adequacy of the prudential supervision process:
    - corporate governance structure: the regulatory requirements concerning the role, qualification and composition of the management bodies were strengthened. These bodies and senior management are required to have a more informed understanding of the adequacy of the organizational structure and the overall risk exposure of the bank and/or the related banking group;
    - the internal control systems of intermediaries: company control functions play a decisive role in ensuring the stability of individual institutions and the banking system as a whole. More specifically, special provisions have been issued concerning: the recognition of risks associated with off-balance-sheet assets and securitizations, the independence of the heads of the function, the valuation of assets and stress testing, and remuneration and incentive systems.
- with regard to the third pillar, the new rules introduce:
    - enhanced transparency requirements regarding securitization exposures, information on the composition of regulatory capital and on the methods used by the bank to calculate the capital ratios;
    - a requirement for annual disclosure of information concerning profit/loss before taxes, the amount of tax on such profit/loss and government support received.
    - an obligation to disclose the leverage ratio.

2.2 OWN FUNDS

A. QUALITATIVE DISCLOSURES

Total own funds are calculated as the algebraic sum of a number of positive and negative components that are allowed, with or without restrictions as the case may be, depending on the capital quality of each. Specifically, the total own funds of an institution are the sum of its Tier 1 capital (Common Equity Tier 1 + Additional Tier 1) and its Tier 2 capital. The components that make up the various categories are described below.

1. Common Equity Tier 1 (CET1)

Common Equity Tier 1 of the Iccrea Group consists primarily of the following positive components:

- fully paid-up capital instruments;
- share premium accounts related to the above instruments;
- other reserves including retained earnings;
- accumulated other comprehensive income: this item includes reserves in respect of assets available for sale, actuarial loss reserves, cash flow hedge reserve, revaluation reserve and the portion of the valuation reserves of equity investments accounted for using the equity method.
- permitted non-controlling interests.

Negative CET1 components mainly include:

- loss for the period;
- direct, indirect or synthetic holdings in CET1 equity instruments;
- goodwill net of the associated deferred tax liabilities;
- other intangible assets net of the associated deferred tax liabilities;
- deduction of deferred tax assets relying on future profitability and not arising from temporary differences (unused tax credits for ACE benefit and tax losses);
- applicable amount of direct, indirect or synthetic holdings in CET1 equity instruments of entities in financial sector where the institution does not have a significant investment in those entities.

The CET1 above is adjusted by applying the following prudential filters:

- filters connected with the cash flow hedge reserve for financial instruments that are not measured at fair value;
- filters connected with the net cumulative unrealized gain of financial liabilities measured at fair value that result from changes in its credit risk;
- filters associated with additional value adjustments.

Transitional adjustments to CET1 include:

- the positive filter to mitigate impact of application of IFRS 9[8] (Regulation (EU) no. 2395/2017);
- the positive filter for negative actuarial reserves (IAS 19).

2. Additional Tier 1

Additional Tier 1 capital is represented by non-controlling interests in T1 instruments of the subsidiary Banca Sviluppo, included in consolidated own funds, to meet the prudential requirements for the individual subsidiary pursuant to Article 85 of the CRR.

3. Tier 2

Tier 2 capital is composed of subordinated liabilities issued by the Parent Company, Iccrea Banca SpA, and the non-controlling interests in T2 instruments issued by Iccrea BancaImpresa and Banca Sviluppo. The relative amount, calculated net of the Iccrea Group's direct, indirect or synthetic holdings in these instruments, is reduced by the theoretical amortization calculated pursuant to Article 64 of Regulation (EU) no. 575/2013.

[8] For a transitional period of 5 years, institutions may exclude from CET1 a portion of the increase in allowances for expected loss deriving from the application of the new standard in the following percentages: (a) 0.95 during the period from January 1, 2018 to December 31, 2018; (b) 0.85 during the period from January 1, 2019 to December 31, 2019; (c) 0.7 during the period from January 1, 2020 to December 31, 2020; (d) 0.5 during the period from January 1, 2021 to December 31, 2021; (e) 0.25 during the period from January 1, 2022 to December 31, 2022. The transitional provisions apply to:

- the increased allowances for expected credit losses calculated in accordance with paragraphs 5.5.3 and 5.5.5 of IFRS 9 at January 1, 2018 compared with the impairment losses determined under IAS 39 at December 31, 2107;
- the increased allowances for expected credit losses calculated in accordance with paragraphs 5.5.3 and 5.5.5 of IFRS 9 at the reporting date compared with the expected credit losses calculated at January 1, 2018, with the exclusion of the loss allowance for impaired assets.

B. QUANTITATIVE DISCLOSURES

	30/06/2018	31/12/17*
A. Common Equity Tier 1 (CET1) capital before application of prudential filters	**1.553.402**	**1.631.842**
of which CET1 instruments affected by transitional provisions		
B. CET 1 prudential filters (+/-)	**(1.297)**	**(2.475)**
C. CET1 gross of deductible elements and the effects of the transitional provisions (A +/- B)	**1.552.105**	**1.629.367**
D. Elements to be deducted from CET1	**(144.622)**	**(79.224)**
E. Transitional provisions - Impact on CET1 (+/-), including non-controlling interests affected by transitional provisions	**99.845**	**4.919**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1.507.328**	**1.555.062**
G. Additional Tier 1 (AT1) capital gross of deductible elements and the effects of the transitional provisions	**4.916**	**5.661**
of which AT1 instruments affected by transitional provisions		
H. Elements to be deducted from AT1	**(450)**	**-**
I. Transitional provisions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 as a result of the transitional provisions		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	**4.466**	**5.661**
M. Tier 2 (T2) capital gross of deductible elements and the effects of the transitional provisions	**140.419**	**140.263**
of which Tier 2 instruments affected by transitional provisions		
N. Elements to be deducted from T2	**(5.491)**	**(4.038)**
O. Transitional provisions - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 as a result of the transitional provisions	**-**	**1.385**
P. Total Tier 2 (T2) capital (M - N +/- O)	**134.928**	**137.610**
Q. Total own funds (F + L + P)	**1.646.722**	**1.698.333**

* The figures for 2017 have been restated.

The following briefly describes the elements that form each aggregate.

A. Common Equity Tier 1 - CET1 before application of prudential filters

This includes the elements of Common Equity Tier 1 referred to in Article 26 of the Capital Requirements Regulation (CRR): a) CET1 capital instruments; b) share premium accounts related to the instruments referred to in point a); c) retained earnings; d) accumulated other comprehensive income; e) other reserves; f) funds for general banking risk.

B. CET 1 prudential filters

This item includes the prudential adjustments referred to in Articles 32-35 of the CRR: cash flow hedges and changes in the value of own liabilities, additional value adjustments and unrealized gains and losses measured at fair value.

D. Elements to be deducted from CET1

This item includes the following deductions (Article 36 of the CRR): a) losses for the current financial year, intangible assets, deferred tax assets that rely on future profitability, direct, indirect and synthetic holdings by an institution of own Common Equity Tier 1 instrument; the applicable amount of direct, indirect and synthetic

holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution does or does not have a significant investment in those entities.

E. Transitional provisions - Impact on CET1

This item mainly includes the temporary adjustments to mitigate the impact of the introduction of IFRS 9 on own funds (Regulation (EU) no. 2395/2017, which inserted Article 473a – Introduction of IFRS 9 in Regulation (EU) no. 575/2013).

G. Additional Tier 1 - AT1 gross of deductible elements and the effects of the transitional provisions

This item includes non-controlling interests included in consolidated Tier 1 capital in accordance with Article 85 of the CRR.

H. Elements to be deducted from AT1

This item includes the applicable amount of Additional Tier 1 instruments held in financial sector entities where the institution does not have a significant investment in the entities (Article 60 of the CRR).

M. Tier 2 - T2 capital gross of deductible elements and the effects of the transitional provisions

This item includes the Tier 2 items referred to in Article 62 of the CRR: a) capital instruments and subordinated loans; b) share premium accounts related to instruments referred to in point a).

N. Elements to be deducted from T2

This items includes the applicable amount of direct, indirect and synthetic holdings of Tier 2 instruments of the financial sector entities where the institution does not have a significant investment in those entities (Article 70 of the CRR).

TRANSITIONAL PROVISIONS

The transitional adjustments of CET1 can be summarized as follows:

- the increase in loss allowances for expected credit losses deriving from the application of IFRS 9 (Article 473a of the CRR) equal to €99.3 million;
- actuarial losses on defined benefit plans were neutralized in the amount of €545 thousand (see CRR, Part Ten, Transitional provisions, section 3, art. 473);

PRUDENTIAL FILTERS

Tier 1 capital was adjusted by the amount of the following prudential filters:

- €850 thousand to exclude from the cash flow hedge reserve the amount in respect of asset/liability positions not measured at fair value;
- €34 thousand to sterilize the distortive effects of the fair value measurement of our own liabilities with regard to the component attributable to changes in our credit standing;
- €(2.1) million in additional value adjustments (CRR. Art. 34 and 105, Part Two, Section 2): the latter were calculated using the simplified approach set out in EBA/RTS/2014/06 of March 31, 2014; for entities for which the sum of the absolute value of fair valued assets/liabilities is less than €15 billion, the additional value adjustments are equal to 0.1% of that aggregate.

DEDUCTIONS WITH THRESHOLD EXEMPTIONS

The Iccrea Group did not make deductions with threshold exemptions in respect of tax assets and significant investments in the equity instruments of other financial sector entities, which have therefore been weighted at 250%.

Deductions were made in respect of non-significant investments in the equity instruments of other financial sector entities in the total amount of €2.565 million, which were allocated on a pro-rated basis among the various levels of capital in accordance with the weight of each category in the aggregate amount of all CET1, Tier 1 and Tier 2 capital of the financial sector entity held by the institution and included in the calculation of the 10% threshold. The amount of holdings equal to or less than 10% of the CET1 capital of the institution was given the regulatory weight of 100%.

2.3 CAPITAL ADEQUACY

A. QUALITATIVE DISCLOSURES

Under the provisions of prudential supervisory regulations (Circular no. 285 of December 17, 2013 as updated), the Banking Group must constantly maintain the following minimum capital to meet the risks typical of banking and financial activity (credit and counterparty risk, market risk and operational risk):

- a CET 1 Ratio of 4.5%;
- a Tier 1 Ratio of 6%;
- a Total Capital Ratio of 8%.

The capital ratios are calculated by setting the various levels of regulatory capital against the overall exposure to risk: the consolidated requirement is made up of the sum of the individual requirements of the Banking Group companies, excluding exposures arising from intragroup transactions used in calculating credit, counterparty and regulatory risks.

The minimum requirements are supplemented by additional capital buffers, which have been imposed to give banks high quality capital to be used in moments of market strains in order to prevent malfunctions in the banking system and interruptions in the supply of credit. These buffers include:

- the Capital Conservation Buffer (CCB): consisting of CET 1, it represents an additional requirement of 1.875%;[9]
- the Countercyclical Capital Buffer: also consisting of common equity, it must be accumulated in periods of economic growth to cope with possible future losses, using a specific ratio established on a national basis. On September 22, 2017, the Bank of Italy, in its capacity as the designated authority, issued a notice maintaining the countercyclical capital buffer ratio for the fourth quarter of 2017 at 0% for exposures to Italian counterparties, unchanged on previous quarters. The specific countercyclical capital buffer ratio for the Bank is equal to the weighted average of the countercyclical ratios applicable in the various countries in which the Bank has significant credit exposures;
- the buffers for Global & Other Systemically Important Institutions (G-SII & O-SII): both consist of CET 1 and directly regard Global & Other Systemically Important Institutions as identified by the Bank of Italy in Italy.

Accordingly, given the predominantly national nature of the Group's operations, the capital requirements including the capital buffers for 2018: a Common Equity Tier ratio of 6.375%, a Tier 1 ratio of 7.875 % and a Total capital Ratio of 9.875%.

At June 30, 2018 the Iccrea Group easily exceeded the regulatory minimums:

- the CET1 ratio was 11.89% (12.12% in 2017);
- the Tier 1 ratio was 11.92% (12.15% in 2017);
- the Total Capital ratio was 12.99% (13.23% in 2017).

In addition, following the Supervisory Review and Evaluation Process (SREP), as announced by the ECB in November 2017, the Iccrea Group is required to maintain a Total Capital ratio for 2018 of 9.75% (1.75% over the regulatory minimum, composed entirely of CET1).

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[9] With the publication of the 18th update of Circular n. 285, the Bank of Italy modified the rules governing the Capital Conservation Buffer to bring the national regulations into line with those in the majority of euro-area countries and ensure equality of treatment among intermediaries from different countries. The change established that banks at the individual and consolidated levels are no longer required to apply a minimum ratio of 2.5% but instead shall use the following progression: 1.25% as from January 1, 2017 to December 31, 2017, 1.875% as from January 1, 2018 to December 31, 2018 and 2.5% as from January 1, 2019.

B. QUANTITATIVE DISCLOSURES

	Unweighted amounts		Weighted amounts/requirements	
	30/06/2018	31/12/2017	31/06/2018	31/12/2017
A. EXPOSURES				
A.1 Credit and counterparty risk	**27,759,711**	**20,425,096**	**11,053,768**	**11,340,323**
1. Standardized approach	27,750,420	20,412,021	11,044,477	11,327,248
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	9,291	13,075	9,291	13,075
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**884,301**	**907,226**
B.2 Risk of adjustment of credit rating			**15,006**	**7,479**
B.3 Settlement risk				
B.4 Market risks			**22,063**	**19,471**
1. Standardized approach			22,063	19,471
2. Internal models				
3. Concentration risk				
B.5 Operational risk			**92,577**	**92,577**
1. Basic indicator approach			92,577	92,577
2. Standardized approach				
3. Advanced measurement approach				
B.6 Other components				
B.7 Total prudential requirements			**1,013,948**	**1,026,753**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets			**12,674,350**	**12,834,413**
C.2 CET 1 capital ratio			**11.89%**	**12.12%**
C.3 Tier 1 capital ratio			**11.92%**	**12.15%**
C.4 Total capital ratio			**12.99%**	**13.23%**

In the standardized approach, the unweighted amounts in the different categories of assets exposed to credit and counterparty risk (on-balance-sheet exposures, off-balance-sheet exposures, SFTs, LSTs, derivatives) correspond to the carrying amount net of prudential filters, the effects of risk mitigation techniques (full method for secured financial transactions) and credit conversion factors.[10]

The value of the exposure was determined in conformity with Regulation (EU) no. 2395/2017. Accordingly, the loan writedowns by which the value of the exposures was reduced were multiplied by the regulatory mitigation factor so as not to include the impact on those elements of the provisions for expected credit losses that the institution did not include in CET1, so as to avoid inappropriate capital relief.

[10] For off-balance-sheet transactions (guarantees granted and commitments), the credit conversion factor approximates the probability that a transaction will give rise to an on-balance-sheet credit exposure, for which the size of the exposure is estimated: the credit exposure equivalent is calculated by multiplying the nominal value of the commitment by the corresponding conversion factor (full, medium and low risk).

PART G. - Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

The Group did not carry out any business combinations during the year.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

The section has not been completed because there were no such positions as of the reporting date.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

The section has not been completed because there were no such positions as of the reporting date.

PART H - Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table reports information concerning the remuneration paid in the first half of 2018 to members of the Board of Directors, the Board of Auditors and key management personnel of the Parent Company who can be considered "related parties".

	Short-term benefits	Post-employment benefits	Other long-term benefits	Loans and guarantees	Share-based payments	Total 2018
Members of the Board of Directors and the Board of Auditors and key management personnel	1,590	5	-	613	-	2,209

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In December 2011, the Bank of Italy issued regulations governing on related party transactions contained in Circular no. 263/2006 with the aim of strengthening arrangements to ensure that close ties with the decision-makers of a bank cannot compromise the impartiality and objectivity of decisions relating to the granting of loans and other transactions involving them, with possible distortions in the resource allocation process, the exposure of the bank to risks that are not measured or monitored appropriately and the generation of losses for deposit holders and shareholders.

The individual companies of the Iccrea Banking Group, and therefore the Group as a whole, have adopted a document governing the principles and rules applicable to related party transactions in compliance with the supervisory regulations.

Transactions between the Iccrea Banking Group and corporate officers regard ordinary Group operations. They are undertaken in accordance with agreements applicable to all employees, where the necessary conditions are met. Transactions with corporate officers, their immediate family and entities controlled by them amounted to €0.6 million.

Transactions with subsidiaries not consolidated on a line-by-line basis and transactions with associated companies regarded ordinary operations within a multi-functional banking organization. These transactions amounted to €35 million and included guarantees issued in the amount of €7.4 million. At June 30, 2018, the Group companies had no exposures to the National Pension Fund for employees of the mutual banks.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.

PART I - Share-based payments

No information is reported in this section

PART L – Operating segments

A. PRIMARY REPORTING BASIS

For segment reporting, a summary income statement and key financial aggregates are prepared and presented. The companies within the Group mainly operate exclusively in individual operating segments, which, as noted in Section 5 of Part A.1 of these notes to the financial statements, are as follows:

- **Institutional:** business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- **Corporate**: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks;
- **Retail**: mainly asset management activities on an individual and collective basis for retail customers;
- **Corporate Center**: internal Group activities of an administrative and support nature, as well as all intercompany eliminations.

For additional information regarding the criteria used to identify and measure the individual operating segments, please see Part A – Accounting policies.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	**91,617**	**26,669**	**36,007**	**(545)**	**2,646**	**156,394**
Net fee and commission income	4,109	82,911	27,530	(1)	(2,175)	112,374
Other financial expense and income	2,552	(2,817)	487	-	(43,016)	(42,794)
Gross income	**98,278**	**106,767**	**64,020**	**(546)**	**(42,545)**	**225,974**
Net value adjustments	(41,073)	(5,914)	(5,643)	-	-	(52,630)
Net gains (losses) on financial operations	**57,205**	**100,850**	**58,380**	**(546)**	**(42,545)**	**173,344**
Operating expenses	(45,322)	(154,567)	(40,807)	2,129	1,662	(236,905)
Other costs and revenue	(1,691)	(7,831)	296	1	3,674	(5,551)
Profit/(loss) from continuing operations before tax	**10,192**	**(61,545)**	**17,866**	**1,584**	**(37,209)**	**(69,112)**
Income tax for the period on continuing operations	1,391	4,596	(6,222)	(662)	(94)	(991)
Profit/(loss) for the period	**11,583**	**(56,950)**	**11,645**	**922**	**(37,303)**	**(70,103)**
Profit/(loss) for the period pertaining to non-controlling interests	**77**	**1,089**	**1,869**	**-**	**15**	**3,019**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**11,506**	**(58,038)**	**9,776**	**922**	**(37,288)**	**(73,122)**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	56,533	1,090,870	9,884	2	45,958	1,111,331
Due from banks	127,046	19,942,876	64,846	10,886	2,399,947	17,745,703
Loans to customers	8,344,127	4,413,970	1,559,304		1,580,233	12,737,167
Funding from banks	3,071,281	19,287,617	810,926	54,327	3,890,606	19,333,544
Funding from customers	669,584	15,805,625	957,749		43,915	17,389,041
Securities and other financial liabilities	4,340,704	5,315,531	151,783		4,340,726	5,467,291

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Interim consolidated financial statements as of June 30, 2018

Review report on the interim consolidated financial statements
(Translation from the original Italian text)

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Review report on the interim consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim consolidated financial statements, comprising the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows for the six-month period then ended and the related notes to the financial statement of Iccrea Banca S.p.A. and its subsidiaries (the "Iccrea Banking Group") as of June 30, 2018. The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the interim consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of Iccrea Banking Group as of June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, October 3, 2018

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers

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Central Credit Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group